

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY FISCAL COURT

June 30, 2006

The Auditor of Public Accounts has completed the audit of the Warren County Fiscal Court for fiscal year ended June 30, 2006.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Warren County, Kentucky.

We have issued an adverse opinion, on the aggregate discretely presented component units of the Warren County Fiscal Court, which include the Southern Kentucky Performing Arts Center, Inc., the Inter-Modal Transportation Authority, Inc., and the South Central Kentucky Regional Development Authority, because the financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc.

Financial Condition:

The Fiscal Court had net assets of \$40,525,883 as of June 30, 2006. The Fiscal Court had unrestricted net assets of \$5,005,862 in its governmental activities as of June 30, 2006, with total net assets of \$40,229,390. In its business-type activities, total net cash and cash equivalents were \$263,434 with total net assets of \$296,493. The Fiscal Court's discretely presented component units had unrestricted net assets of \$(654,357) as of June 30, 2006, with total net assets of \$(14,134) as of June 30, 2006. The Fiscal Court had total debt principal as of June 30, 2006 of \$50,276,000 with \$1,627,000 due within the next year. The discretely presented component units had total debt principal as of June 30, 2006 of \$162,228,526 with \$300,000 due within the next year.

Deposits:

As of June 30, 2006, the Fiscal Court and its component units' deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Michael O. Buchanon, Warren County Judge/Executive

Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements of the County, as listed in the table of contents. These financial statements are the responsibility of the Warren County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Inter-Modal Transportation Authority, Inc. (ITA), and South Central Kentucky Regional Development Authority (RDA), discretely presented component units of the Warren County Fiscal Court, which represent 17% and 83% of the assets and revenues, respectively of the financial data presented for the discretely presented component unit presentation. Those financial statements were audited by another auditor whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the ITA and RDA, are based on the reports of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditor provide a reasonable basis for our opinions.

As described in Note 1, management of Warren County Fiscal Court prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



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The financial statements of ITA and RDA, discretely presented component units of the Warren County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.

The financial statements also do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. This entity meets the criteria to be reported as a discretely presented component unit of Warren County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, based on our report and the reports of the other auditor, because of the effects of the matters discussed in the two previous paragraphs, the financial statements referred to above do not present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Warren County, Kentucky, as of June 30, 2006, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Warren County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2007 on our consideration of Warren County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 16, 2007

WARREN COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Michael O. Buchanon	County Judge/Executive
James T. Kaelin	Magistrate
Cedric Burnam	Magistrate
Eddie Beck	Magistrate
Thomas Hunt	Magistrate
Terry W. Young	Magistrate
Robert Donoho	Magistrate

Other Elected Officials:

Amy Milliken	County Attorney
Jackie Strode	Jailer
Dorothy Owens	County Clerk
Pat Howell Goad	Circuit Court Clerk
Jerry Gaines	Sheriff
William Carter	Property Valuation Administrator
Kevin Kirby	Coroner

Appointed Personnel:

Jerry Pearson	County Treasurer
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MICHAEL O. BUCHANON

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WARREN COUNTY JUDGE EXECUTIVE

FAX: (270) 781-2777

Management's Discussion and Analysis June 30, 2006

The financial management of Warren County, Kentucky offers readers of Warren County's financial statements this narrative overview and analysis of the financial activities of Warren County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Warren County had net assets of \$40,525,883 as of June 30, 2006. The Fiscal Court had unrestricted net assets of \$5,005,862 in the governmental activities as of June 30, 2006, with total net assets of \$40,229,390. In the business-type activities, cash and cash equivalents were \$263,434 with total net assets of \$296,493.
- The governmental activities' total net assets decreased by \$1,523,742 from the prior year. This decrease is primarily due to increased deficits in the Jail and Sheriff's budget; expenses covered by grants from the State of Kentucky not reimbursed until after June 30, 2006.
- At the close of the current fiscal year, Warren County governmental funds reported current assets of \$6,805,269. Of this amount, \$5,005,862 is available for spending at the government's discretion (unreserved fund balance).
- Warren County's total indebtedness at the close of fiscal year June 30, 2006 was \$50,276,000, of which \$48,649,000 is long-term (due after 1 year) and \$1,627,000 is short-term (to be paid within 1 year). Debt additions were \$25,960,000, and debt reductions were \$25,021,983 for a net increase of \$938,017 for the year. This increase was due to the refinancing of the Warren County Justice Center, Series 1997A, Series 1999B bonds, and principal payments made during the year.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Warren County's basic financial statements. Warren County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Warren County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Warren County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Warren County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Warren County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Warren County has one business type activity - Jail Canteen.

The government-wide financial statements should include not only Warren County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Warren County has three such entities described as major Discretely Presented Component Units, they are:

Southern Kentucky Performing Arts Center, Incorporated
Inter-Modal Transportation Authority, Incorporated
South Central Kentucky Regional Development Authority

The financial statements include the financial data of the Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority. However, the financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Warren County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Warren County can be divided into three broad categories: *governmental, proprietary, and fiduciary*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Warren County maintains (11) eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- County Bond Sinking Fund
- Justice Center Expansion Corporation Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- Park Enterprise Fund
- Emergency 9-1-1 Fund
- Federal Drug Forfeiture Fund
- General Obligation Bond Fund
- Regional Jail Corporation Fund

Warren County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road and Bridge Fund, and Jail Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Funds Financial Statements. These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. The County's fiduciary fund is the Jail Inmate Fund.

Component Units Financial Statements. As mentioned above, Component Units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. The government-wide financial statements present information for the component units, the Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority within a single column of the statement of net assets. Also, information on the statement of activities presents these component units. The combining statement of net assets and the combining statement of activities provide details for each of these component units. The government-wide financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Warren County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Current and other assets	\$ 4,390,047	\$ 6,805,269	\$ 246,639	\$ 263,434	\$ 4,636,686	\$ 7,068,703
Net Capital Assets	86,701,068	83,700,121	19,228	33,059	86,720,296	83,733,180
Total Assets	<u>91,091,115</u>	<u>90,505,390</u>	<u>265,867</u>	<u>296,493</u>	<u>91,356,982</u>	<u>90,801,883</u>
Liabilities						
Current and other Liabilities	1,566,983	1,627,000			1,566,983	1,627,000
Long-term Liabilities	47,771,000	48,649,000			47,771,000	48,649,000
Total Liabilities	<u>49,337,983</u>	<u>50,276,000</u>			<u>49,337,983</u>	<u>50,276,000</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	37,363,085	33,424,121	19,228	33,059	37,382,313	33,457,180
Restricted	1,113,621	1,799,407			1,113,621	1,799,407
Unrestricted	3,276,426	5,005,862	246,639	263,434	3,523,065	5,269,296
Total Net Assets	<u>\$41,753,132</u>	<u>\$40,229,390</u>	<u>\$ 265,867</u>	<u>\$ 296,493</u>	<u>\$42,018,999</u>	<u>\$40,525,883</u>

Changes in Net Assets.

Table 2
Warren County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Program Revenues						
Charges for Services	\$ 5,148,381	\$ 6,332,468	\$ 1,103,632	\$ 570,824	\$ 6,252,013	\$ 6,903,292
Grants & Contributions	9,862,843	7,817,914			9,862,843	7,817,914
Capital Grants & Contributions		101,941				101,941
General Revenues						
Taxes	8,653,001	9,456,264			8,653,001	9,456,264
Miscellaneous & Other	1,712,875	1,782,009	22,428	8,536	1,735,303	1,790,545
Net Cash Transfers	320,686		(320,686)			
Total Revenue	<u>25,697,786</u>	<u>25,490,596</u>	<u>805,374</u>	<u>579,360</u>	<u>26,503,160</u>	<u>26,069,956</u>
Expenses						
General Government	8,077,737	5,896,139			8,077,737	5,896,139
Protection to Persons & Property	7,105,800	6,522,255			7,105,800	6,522,255
General Health and Sanitation	1,573,842	1,900,225			1,573,842	1,900,225
Social Services	386,690	394,384			386,690	394,384
Recreation and Culture	2,537,732	2,376,198			2,537,732	2,376,198
Roads	4,214,790	4,150,481			4,214,790	4,150,481
Airports	147,675	155,580			147,675	155,580
Road Facilities	6,046				6,046	
Debt Service	2,724,605	4,302,704			2,724,605	4,302,704
Capital Projects	2,270,189	1,316,372			2,270,189	1,316,372
Jail Canteen			739,212	548,734	739,212	548,734
Total Expenses	<u>29,045,106</u>	<u>27,014,338</u>	<u>739,212</u>	<u>548,734</u>	<u>29,784,318</u>	<u>27,563,072</u>
Change In Net Assets	(3,347,320)	(1,523,742)	66,162	30,626	(3,281,158)	(1,493,116)
Net Assets - Beginning	<u>45,100,452</u>	<u>41,753,132</u>	<u>199,705</u>	<u>265,867</u>	<u>45,300,157</u>	<u>42,018,999</u>
Net Assets - Ending	<u>\$ 41,753,132</u>	<u>\$ 40,229,390</u>	<u>\$ 265,867</u>	<u>\$ 296,493</u>	<u>\$ 42,018,999</u>	<u>\$ 40,525,883</u>

Changes in Net Assets. (Continued)

Governmental Activities. Warren County's net assets decreased by \$1,523,742 during the fiscal year ended June 30, 2006. Key elements of this are as follows:

- Current assets and cash increased \$2,415,222, due to refinancing of the Warren County Justice Center, Series 1997A and Series 1999B bonds.
- Investment in capital assets and infrastructure, net of related debt decreased \$3,938,964 due to depreciation expense and increase of debt.
- Current and long-term liabilities increased by \$938,017, due to the refinancing of the Warren County Justice Center, Series 1997A, Series 1999B bonds and principal payments made during the year.

Business-type Activities. Warren County's net assets increased by \$30,626 during the fiscal year ended June 30, 2006. Key elements are as follows:

- Canteen receipts exceeded expenses by \$22,090
- Interest income was \$1,536
- The canteen realized a gain on the disposal of equipment of \$7,000

Financial Analysis of the County's Funds. As noted earlier, Warren County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Warren County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2006 fiscal year, the combined ending fund balances of County governmental funds were \$6,805,269, which consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has (5) five major governmental, and (6) six non-major funds.

Major Funds

- General Fund
- Road and Bridge Fund
- Jail Fund
- County Bond Sinking Fund
- Justice Center Expansion Corporation

Non-major Funds

- Local Government Economic Assistance Fund
- Park Enterprise Fund
- Emergency 9-1-1 Fund
- Federal Drug Forfeiture Fund
- General Obligation Bond Fund
- Regional Jail Corporation Fund

Financial Analysis of the County's Funds. (Continued)

Governmental Funds Overview. (Continued)

1. The General Fund is the chief operating fund of Warren County. At the end of the June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$4,317,139, which was the total fund balance. The County received \$9,107,392 in real and personal property, motor vehicle, and other taxes for approximately 60% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 40% of revenues.
2. The Road and Bridge Fund is the fund related to county road and bridge construction and maintenance. The Road and Bridge Fund had a \$391,325 fund balance at June 30, 2006. The fiscal year 2006 expenditures for Road and Bridge Fund were \$2,422,105.
3. The Jail Fund is used to account for the operation of the county's detention program. The Jail Fund had a balance at June 30, 2006 of \$128,202. The Jail Fund received \$4,808,601 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$650,000 to the jail operations.
4. The County Bond Sinking Fund had a fund balance of \$855,918 as of June 30, 2006, for the construction of the new regional parks and courthouse renovations. These funds are restricted for parks construction and courthouse renovations.
5. The Local Government Economic Assistance Fund had a fund balance of \$29,036 as of June 30, 2006, an increase of \$31,034 over the previous fiscal year end.
6. The Park Enterprise Fund had a fund balance of \$70,095 as of June 30, 2006, a decrease of \$73,636 over the previous year.
7. The Emergency 9-1-1 Fund accounts for the operation of the City/County emergency operations communications. The Emergency 9-1-1 Fund had a fund balance of \$17,208 at the end of June 30, 2006 fiscal year. Tax revenue from telephone and cell phones for the fiscal year was \$348,260. These funds are used for the operations of 9-1-1.
8. The Federal Drug Forfeiture Fund had a fund balance of \$52,857 as of June 30, 2006. The funds are restricted, and can only be used as directed by approved budgeted appropriation.
9. The General Obligation Bond Fund had a balance of \$882 as of June 30, 2006. These funds are restricted for debt reduction.
10. The Regional Jail Corporation Fund as of June 30, 2006, had a fund balance of \$0.
11. The Justice Center Expansion Corporation had a fund balance of \$942,607 as of June 30, 2006. These funds are restricted for debt reduction and construction.

Financial Analysis of the County's Funds. (Continued)

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Warren County has (1) one enterprise-type proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets as of June 30, 2006, amounted to \$263,434 and total net assets were \$296,493.

General Fund Budgetary Highlights. Warren County's general fund budget for expenditures was amended during the fiscal year increasing the budgeted amount by \$1,566,839. Budget amendments were made to various expenditures due to grants awarded in the fiscal year, surplus cash carried forward, and an increase in actual tax revenue.

Actual revenues of the General Fund were \$303,727 short of the budget. This variance was due to Tax, Excess Fees, Charges for Services, Miscellaneous and Interest Income. Some revenues did not meet the expected budgeted amounts, and the interest on investments remains depressed.

Capital Assets and Debt Administration.

Capital Assets. Warren County's investment in capital assets for its government and business type activities as of June 30, 2006, amount to \$83,733,180 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and infrastructure. Warren County has elected to report infrastructure assets in accordance with the provisions of GASB 34.

Major capital asset events during the fiscal year ended June 30, 2006 included the addition of a neighbor park, purchase of fire apparatus, and office improvements.

Capital Assets and Debt Administration. (Continued)

Additional information of the County's capital assets can be found in Note 5 of this report.

Table 3
Warren County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Assets						
Infrastructure						
Assets	\$ 31,816,333	\$ 29,202,622	\$	\$	\$ 31,816,333	\$ 29,202,622
Land	6,939,281	6,970,281			6,939,281	6,970,281
Construction						
In Progress	4,529	115,175			4,529	115,175
Buildings	42,146,246	41,546,758			42,146,246	41,546,758
Other						
Equipment	753,868	1,061,712			753,868	1,061,712
Land						
Improvements	2,406,861	2,419,021			2,406,861	2,419,021
Vehicles &						
Equip.	2,033,950	2,384,552	19,228	33,059	2,053,178	2,417,611
Total Net						
Capital Assets	<u>\$ 86,101,068</u>	<u>\$ 83,700,121</u>	<u>\$ 19,228</u>	<u>\$ 33,059</u>	<u>\$ 86,120,296</u>	<u>\$ 83,733,180</u>

Long-Term Debt. At the end of the fiscal year ended June 30, 2006, Warren County had total bonded debt outstanding of \$49,935,000. The totals are as follows: General Obligation Bonds \$23,075,000 and First Mortgage Revenue Bonds \$26,860,000. The County has (2) two financing obligations totaling \$341,000.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the budget for the fiscal year ending June 30, 2006:

- Economic factors indicate continued growth for Warren County. As reported by the Commonwealth of Kentucky, 2006 new property was valued in the amount of \$231 million. New housing, expansion of existing business, and the development of new business remain strong for Bowling Green and Warren County. Development in the Inter-Modal Transportation Park and the recruitment of new industry is progressing in accordance with anticipated goals. The unemployment rate continues to be one of the lowest in the state.

Requests For Information. This financial report is designed to provide a general overview of Warren County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

Questions concerning the audit reports of the Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority should be addressed to Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

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WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents -				
Unrestricted	\$ 3,238,767	\$ 263,434	\$ 3,502,201	\$ 737,495
Restricted				1,828,742
Investments:				
Unrestricted	3,566,502		3,566,502	335,000
Restricted				795,000
Net Investment in Direct Financing				
Lease - Current Portion				3,074,243
Receivables:				
Rent				3,562
Taxes				71,921
Interest				10,418
Other				4,491
Prepaid Items				14,163
Rental Deposits (Restricted)				2,775
Total Current Assets	6,805,269	263,434	7,068,703	6,877,810
Noncurrent Assets:				
Investments:				
Unrestricted				1,000,000
Restricted				470,000
Net Investment in Direct Financing				
Lease - Net of Current Portion				134,318,373
Land Held For Industrial Development				
and Sale - Transpark				22,352,304
Debt Issuance Costs				215,396
Capital Assets -				
Land and Land Improvements	6,970,281		6,970,281	3,019,350
Construction in Progress	115,175		115,175	
Buildings and Building Improvem	45,833,337		45,833,337	385,942
Other Equipment	1,791,028		1,791,028	67,493
Land Improvements	2,616,931		2,616,931	
Vehicles and Equipment	5,591,689	85,246	5,676,935	27,972
Web-Site Development Costs				37,210
Infrastructure Assets	105,647,821		105,647,821	
Less: Accumulated Depreciation	(84,866,141)	(52,187)	(84,918,328)	(106,601)
Total Capital Assets - Net of				
Accumulated Depreciation	83,700,121	33,059	83,733,180	3,431,366
Total Noncurrent Assets	83,700,121	33,059	83,733,180	161,787,439
Total Assets	90,505,390	296,493	90,801,883	168,665,249

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

	Primary Government			
	Governmental	Business-Type		Component
	Activities	Activities	Totals	Units
LIABILITIES				
Current Liabilities:				
General Obligation Bonds Payable	\$ 850,000	\$	\$ 850,000	\$
Revenue Bonds Payable	670,000		670,000	300,000
Financing Obligations Payable	107,000		107,000	
Accounts Payable				72,988
Contracts Payable				117,044
Retainage Payable				329,432
Accrued Interest Payable				3,375,011
Accrued Compensated Absences				6,603
Rental Deposits				2,775
Unearned Revenue On Land Sales				26,670
Total Current Liabilities	<u>1,627,000</u>		<u>1,627,000</u>	<u>4,230,523</u>
Noncurrent Liabilities:				
General Obligation Bonds Payable	22,225,000		22,225,000	
Revenue Bonds Payable	26,190,000		26,190,000	19,614,016
Long-Term Debt				137,633,373
Financing Obligations Payable	234,000		234,000	
Deferred Gain On Sale-Leaseback				2,520,334
Revenue and Bond Anticipation Notes Payable				4,681,137
Total Noncurrent Liabilities	<u>48,649,000</u>		<u>48,649,000</u>	<u>164,448,860</u>
Total Liabilities	<u>50,276,000</u>		<u>50,276,000</u>	<u>168,679,383</u>
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	33,424,121	33,059	33,457,180	431,366
Restricted For:				
Capital Projects	1,792,487		1,792,487	
Debt Service	6,920		6,920	208,857
Unrestricted	5,005,862	263,434	5,269,296	(654,357)
Total Net Assets	<u>\$ 40,229,390</u>	<u>\$ 296,493</u>	<u>\$ 40,525,883</u>	<u>\$ (14,134)</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,896,139	\$ 1,153,679	\$ 2,064,247	\$
Protection to Persons and Property	6,522,255	4,966,666	1,578,916	
General Health and Sanitation	1,900,225		183,374	
Social Services	394,384			
Recreation and Culture	2,376,198	212,123	28,330	
Roads	4,150,481		2,128,575	101,941
Airports	155,580			
Debt Service	4,302,704		1,834,472	
Capital Projects	1,316,372			
Total Governmental Activities	<u>27,014,338</u>	<u>6,332,468</u>	<u>7,817,914</u>	<u>101,941</u>
Business-type Activities:				
Jail Canteen	548,734	570,824		
Total Business-type Activities	<u>548,734</u>	<u>570,824</u>		
Total Primary Government	<u>\$ 27,563,072</u>	<u>\$ 6,903,292</u>	<u>\$ 7,817,914</u>	<u>\$ 101,941</u>
Component Units:				
Inter-Modal Transportation Authority, Inc.	\$ 2,107,683	\$ 724,379	\$ 3,000	
South Central Kentucky Regional Development Authority, Inc.	<u>5,908,896</u>	<u>5,818,752</u>		
Total Component Units	<u>\$ 8,016,579</u>	<u>\$ 6,543,131</u>	<u>\$ 3,000</u>	<u>\$</u>

General Revenues:

Taxes:

Real and Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

County Wage Assessment Tax

Excess Fees

Insurance Reimbursement

Miscellaneous Revenues

Unrestricted Investment Earnings

Gain on Disposal Of Equipment

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
\$ (2,678,213)	\$	\$ (2,678,213)	\$
23,327		23,327	
(1,716,851)		(1,716,851)	
(394,384)		(394,384)	
(2,135,745)		(2,135,745)	
(1,919,965)		(1,919,965)	
(155,580)		(155,580)	
(2,468,232)		(2,468,232)	
(1,316,372)		(1,316,372)	
(12,762,015)		(12,762,015)	
	22,090	22,090	
	22,090	22,090	
(12,762,015)	22,090	(12,739,925)	
			(1,380,304)
			(90,144)
			(1,470,448)
7,429,259		7,429,259	
887,375		887,375	
1,139,630		1,139,630	
			443,593
883,298		883,298	
19,591		19,591	
592,923		592,923	147
282,697	1,536	284,233	115,236
3,500	7,000	10,500	
11,238,273	8,536	11,246,809	558,976
(1,523,742)	30,626	(1,493,116)	(911,472)
41,753,132	265,867	42,018,999	897,338
\$ 40,229,390	\$ 296,493	\$ 40,525,883	\$ (14,134)

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road And Bridge Fund	Jail Fund	County Bond Sinking Fund
ASSETS				
Cash and Cash Equivalents	\$ 950,191	\$ 191,771	\$ 128,202	\$ 855,918
Investments	3,366,948	199,554		
Total Assets	<u>\$ 4,317,139</u>	<u>\$ 391,325</u>	<u>\$ 128,202</u>	<u>\$ 855,918</u>
FUND BALANCES				
Fund Balances:				
Unreserved:				
General Fund	\$ 4,317,139	\$	\$	\$
Special Revenue Funds		391,325	128,202	
Capital Projects Fund				855,918
Debt Service Funds				
Total Fund Balances	<u>\$ 4,317,139</u>	<u>\$ 391,325</u>	<u>\$ 128,202</u>	<u>\$ 855,918</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Justice Center Expansion Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$ 942,607	\$ 170,078	\$ 3,238,767
		3,566,502
<u>\$ 942,607</u>	<u>\$ 170,078</u>	<u>\$ 6,805,269</u>

\$	\$ 169,196	\$ 4,486,335
		519,527
936,569		1,792,487
<u>6,038</u>	<u>882</u>	<u>6,920</u>
<u>\$ 942,607</u>	<u>\$ 170,078</u>	<u>\$ 6,805,269</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 6,805,269
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Governmental Funds	168,566,262
Accumulated Depreciation	(84,866,141)
Long-term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not	
Reported in the Governmental Funds:	
General Obligation Bonds Principal	(23,075,000)
Revenue Bonds Principal	(26,860,000)
Financing Obligations Principal	<u>(341,000)</u>
Net Assets Of Governmental Activities	<u>\$ 40,229,390</u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

WARREN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road And Bridge Fund	Jail Fund	County Bond Sinking Fund
REVENUES				
Taxes	\$ 8,967,457	\$	\$	\$
In Lieu Tax Payments	139,935			
Excess Fees	883,298			
Licenses and Permits	1,151,700			
Intergovernmental	3,086,539	2,230,516	4,808,601	
Charges for Services	262,777		442,170	
Miscellaneous	412,404	2,414	284,742	
Interest	161,743	16,477	1,811	34,057
Total Revenues	<u>15,065,853</u>	<u>2,249,407</u>	<u>5,537,324</u>	<u>34,057</u>
EXPENDITURES				
General Government	3,590,641			
Protection to Persons and Property	1,251,328		4,523,182	
General Health and Sanitation	1,896,926			
Social Services	332,819			
Recreation and Culture	2,252,860			
Roads		1,461,066		
Airports	155,580			
Debt Service	456,855			113,989
Capital Projects	488,818	654,932		172,622
Administration	1,082,816	306,107	876,969	
Total Expenditures	<u>11,508,643</u>	<u>2,422,105</u>	<u>5,400,151</u>	<u>286,611</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>3,557,210</u>	<u>(172,698)</u>	<u>137,173</u>	<u>(252,554)</u>
Other Financing Sources (Uses)				
Proceeds Of Refunding Bonds				
Payment To Refunded Bond Escrow Agent				
Transfers From Other Funds	32	450,000	650,000	113,964
Transfers To Other Funds	(2,130,128)		(737,909)	
Total Other Financing Sources (Uses)	<u>(2,130,096)</u>	<u>450,000</u>	<u>(87,909)</u>	<u>113,964</u>
Net Change in Fund Balances	1,427,114	277,302	49,264	(138,590)
Fund Balances - Beginning (Restated)	2,890,025	114,023	78,938	994,508
Fund Balances - Ending	<u>\$ 4,317,139</u>	<u>\$ 391,325</u>	<u>\$ 128,202</u>	<u>\$ 855,918</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 For The Year Ended June 30, 2006
 (Continued)

Justice Center Expansion Corporation Fund	Non- Major Governmental Funds	Total Governmental Funds
\$ 1,834,472	\$ 644,639	\$ 11,446,568
		139,935
		883,298
		1,151,700
	44,428	10,170,084
		704,947
1	14,806	714,367
60,190	8,419	282,697
<u>1,894,663</u>	<u>712,292</u>	<u>25,493,596</u>
	140,883	3,731,524
	413,843	6,188,353
		1,896,926
	61,565	394,384
	80,305	2,333,165
	39,067	1,500,133
		155,580
2,969,145	1,407,336	4,947,325
		1,316,372
	718	2,266,610
<u>2,969,145</u>	<u>2,143,717</u>	<u>24,730,372</u>
<u>(1,074,482)</u>	<u>(1,431,425)</u>	<u>763,224</u>
25,960,000		25,960,000
(24,308,002)		(24,308,002)
253,880	1,414,033	2,881,909
(6,952)	(6,920)	(2,881,909)
<u>1,898,926</u>	<u>1,407,113</u>	<u>1,651,998</u>
824,444	(24,312)	2,415,222
118,163	194,390	4,390,047
<u>\$ 942,607</u>	<u>\$ 170,078</u>	<u>\$ 6,805,269</u>

The accompanying notes are an integral part of the financial statements.

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**WARREN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

WARREN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 2,415,222
<p>Amounts Reported for Governmental Activities In The Statement of Activities Are Different Because:</p> <p>Governmental Funds Report Capital Outlays as Expenditures. However, In The Statement of Activities the Cost of Those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.</p>	
Capital Outlay	1,637,472
Depreciation Expense	(4,635,419)
Book Value - Disposed Capital Assets	(3,000)
<p>The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal On Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect On Net Assets.</p>	
Bond Issuance Proceeds	(25,960,000)
Financing Obligations Principal Payments	131,983
Bonded Debt Principal Payments	<u>24,890,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,523,742)</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

WARREN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 263,434
Total Current Assets	<u>263,434</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	85,246
Less Accumulated Depreciation	<u>(52,187)</u>
Total Noncurrent Assets	<u>33,059</u>
Total Assets	<u>296,493</u>
Fund Net Assets	
Invested in Capital Assets	33,059
Unrestricted	<u>263,434</u>
Total Fund Net Assets	<u><u>\$ 296,493</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

WARREN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 570,824
Total Operating Revenues	<u>570,824</u>
Operating Expenses	
Cost of Sales	442,084
Educational and Recreational	97,260
Depreciation	9,003
Miscellaneous	<u>387</u>
Total Operating Expenses	<u>548,734</u>
Operating Income	<u>22,090</u>
Nonoperating Revenues (Expenses)	
Interest Income	1,536
Gain On Disposal Of Equipment	<u>7,000</u>
Total Nonoperating Revenues (Expenses)	<u>8,536</u>
Change In Fund Net Assets	<u>30,626</u>
Total Fund Net Assets - Beginning (Restated)	<u>265,867</u>
Total Fund Net Assets - Ending	<u><u>\$ 296,493</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

WARREN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 570,824
Cost of Sales	(442,084)
Educational and Recreational	(97,260)
Miscellaneous	(387)
Net Cash Provided By Operating Activities	<u>31,093</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Vehicles	(15,834)
Net Cash Used By Capital and Related Financing Activities	<u>(15,834)</u>
Cash Flows From Investing Activities	
Interest Earned	1,536
Net Cash Provided By Investing Activities	<u>1,536</u>
Net Increase in Cash and Cash Equivalents	16,795
Cash and Cash Equivalents - July 1 (Restated)	<u>246,639</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 263,434</u></u>
Reconciliation of Operating Income to Net Cash	
<u>Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 22,090
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities:	
Depreciation Expense	<u>9,003</u>
Total Cash Provided By Operating Activities	<u><u>\$ 31,093</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUND – MODIFIED CASH BASIS

June 30, 2006

WARREN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS – FIDUCIARY FUND – MODIFIED CASH BASIS

June 30, 2006

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 3,230
Total Assets	<u>\$ 3,230</u>
Liabilities	
Amounts Held In Custody For Others	\$ 3,230
Total Liabilities	<u>\$ 3,230</u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS

June 30, 2006

WARREN COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS

June 30, 2006

	Inter-Modal Transportation Authority, Inc.	South Central Kentucky Regional Development Authority	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents -			
Unrestricted	\$ 669,203	\$ 68,292	\$ 737,495
Restricted	1,619,885	208,857	1,828,742
Investments:			
Unrestricted	335,000		335,000
Restricted	795,000		795,000
Net Investment in Direct Financing			
Lease - Current Portion		3,074,243	3,074,243
Receivables -			
Rent	3,562		3,562
Taxes	71,921		71,921
Interest	10,418		10,418
Other	4,491		4,491
Prepaid Items	14,163		14,163
Rental Deposits (Restricted)	2,775		2,775
Total Current Assets	3,526,418	3,351,392	6,877,810
Noncurrent Assets:			
Investments:			
Unrestricted	1,000,000		1,000,000
Restricted	470,000		470,000
Net Investment in Direct Financing			
Lease - Net of Current Portion		134,318,373	134,318,373
Land Held For Industrial Development			
and Sale - Transpark	22,352,304		22,352,304
Debt Issuance Costs	186,666	28,730	215,396
Capital Assets:			
Land and Improvements	19,350	3,000,000	3,019,350
Buildings and Building Improvement	385,942		385,942
Other Equipment	67,493		67,493
Vehicles and Equipment	27,972		27,972
Web-Site Development Costs	37,210		37,210
Less: Accumulated depreciation	(106,601)		(106,601)
Total Capital Assets - Net of			
Accumulated Depreciation	431,366	3,000,000	3,431,366
Total Noncurrent Assets	24,440,336	137,347,103	161,787,439
Total Assets	27,966,754	140,698,495	168,665,249

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF NET ASSETS – COMPONENT UNITS
June 30, 2006
(Continued)

	Inter-Modal Transportation Authority, Inc.	South Central Kentucky Regional Development Authority	Totals
Liabilities			
Current Liabilities:			
Revenue Bonds Payable	\$ 300,000	\$	\$ 300,000
Accounts Payable	72,988		72,988
Contracts Payable	117,044		117,044
Retainage Payable	329,432		329,432
Accrued Interest Payable	277,286	3,097,725	3,375,011
Accrued Compensated Absences	6,603		6,603
Rental Deposits	2,775		2,775
Unearned Revenue On Land Sales	26,670		26,670
Total Current Liabilities	<u>1,132,798</u>	<u>3,097,725</u>	<u>4,230,523</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	19,614,016		19,614,016
Long-Term Debt		137,633,373	137,633,373
Deferred Gain On Sale-Leaseback	2,520,334		2,520,334
Revenue and Bond Anticipation Notes Payable	<u>4,681,137</u>		<u>4,681,137</u>
Total Noncurrent Liabilities	<u>26,815,487</u>	<u>137,633,373</u>	<u>164,448,860</u>
Total Liabilities	<u>27,948,285</u>	<u>140,731,098</u>	<u>168,679,383</u>
Net Assets			
Invested in Capital Assets	431,366		431,366
Restricted for Debt Service		208,857	208,857
Unrestricted	<u>(412,897)</u>	<u>(241,460)</u>	<u>(654,357)</u>
Total Net Assets	<u>\$ 18,469</u>	<u>\$ (32,603)</u>	<u>\$ (14,134)</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF ACTIVITIES – COMPONENT UNITS

For The Year Ended June 30, 2006

WARREN COUNTY
STATEMENT OF ACTIVITIES – COMPONENT UNITS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Inter-Modal Transportation Authority, Inc.	\$ 2,107,683	\$ 724,379	\$ 3,000		\$ (1,380,304)
South Central Kentucky Regional Development Authority	5,908,896	5,818,752			(90,144)
Total Component Units	<u>\$ 8,016,579</u>	<u>\$ 6,543,131</u>	<u>\$ 3,000</u>	<u>\$</u>	<u>(1,470,448)</u>
General Revenues:					
Taxes:					
County Wage Assessment Tax					443,593
Unrestricted Investment Earnings					115,236
Miscellaneous Revenues					<u>147</u>
Total General Revenues					<u>558,976</u>
Change in Net Assets					<u>(911,472)</u>
Net Assets - Beginning (Restated)					<u>897,338</u>
Net Assets - Ending					<u>\$ (14,134)</u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The management of Warren County Fiscal Court presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Receivables are recognized on the Statement of Net Assets, but receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances). The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

Management of the Inter-Modal Transportation Authority, Inc., and South Central Regional Development Authority discretely presented component units of the Warren County Fiscal Court, presents their government-wide and fund financial statements utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. These discretely presented component units have adopted the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets.

B. Reporting Entity

The financial statements of Warren County include the funds, agencies, boards, and entities for which the Fiscal Court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Audited financial statements for the Inter-Modal Transportation Authority, Inc., and South Central Kentucky Regional Development Authority discretely presented component units of the Warren County Fiscal Court, may be requested by contacting the Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units

Warren County Regional Jail Corporation

The Warren County Fiscal Court appoints a voting majority of the Regional Jail Corporation's governing board and has the ability to impose its will on the governing board. In addition, the Fiscal Court is financially accountable and legally obligated for the debt of the Regional Jail Corporation. Financial information for the Warren County Regional Jail Corporation is blended within Warren County's financial statements.

Warren County Justice Center Expansion Corporation

Warren County Fiscal Court must approve issue of bonded debt for the Justice Center Expansion Corporation; therefore, the Justice Center Expansion Corporation is fiscally dependent. In addition, the Fiscal Court leases the justice center from the Justice Center Expansion Corporation for the amount of the bond payments. Financial information for the Warren County Justice Center Expansion Corporation is blended within Warren County's financial statements.

Discretely Presented Component Units

The financial data of the Inter-Modal Transportation Authority, Inc., and South Central Kentucky Regional Development Authority is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize this organization's separateness from the Fiscal Court's primary government. The financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc.

Southern Kentucky Performing Arts Center, Inc.

The Southern Kentucky Performing Arts Center, Inc. (SKyPAC) was created under the provisions of KRS 273.161 through 273.390 and 58.180 for the purpose of performance of public, civic, and governmental activities in Warren County, Kentucky. SKyPAC acts as the agent and instrumentality and the constituted authority of Warren County in the acquisition and financing of public projects and public facilities which includes among other things, public buildings and educational facilities; and in conjunction with Western Kentucky University, to organize, study, develop, implement, acquire and finance public facilities for facilitating the construction and maintenance of a fine arts and educational facility. SKyPAC is governed by no less than 10 directors and no more than 25 directors of the board. All of SKyPAC's Board of Directors are appointed by the Warren County Judge/Executive subject to the approval of the Warren County Fiscal Court. SKyPAC can provide a financial benefit to or impose a financial burden on the Warren County Fiscal Court.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc. (ITA) was incorporated by the Warren County Fiscal Court as a non-stock, non-profit corporation pursuant to KRS 273.161 through 273.390 and 58.180. The ITA's primary purpose is the design, promotion, and construction of a multi-modal commerce and distribution center and industrial park in the Warren County area. The ITA was created for the purpose of financing public projects on behalf of Warren County Fiscal Court. ITA is governed by a 24-member board of directors appointed by the Warren County Judge/Executive. The Fiscal Court exercises organizational control over the ITA and retains the authority to alter or change the structure, organization, programs, or activities of the ITA, including the power to terminate its existence. In the event the ITA is dissolved, title to and ownership of all of its properties shall vest in the Fiscal Court. The ITA may not issue bonds, notes, or other obligations without the approval of the Fiscal Court.

South Central Kentucky Regional Development Authority

The South Central Kentucky Regional Development Authority (RDA) was established by the Warren County Fiscal Court pursuant to KRS 154.50-301 through 154.50-346. The RDA was created and organized by the Fiscal Court as a non-profit, industrial development authority for the purpose of financing the acquisition of real estate, pending the issuance of revenue bonds by the Inter-Modal Transportation Authority, Inc. The RDA is governed by six members appointed by the Warren County Judge/Executive. The Fiscal Court exercises organizational control over the RDA and retains the authority to alter or change the structure, organization, programs, or activities of the RDA, including the power to terminate its existence.

C. Warren County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Warren County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenditures of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

County Bond Sinking Fund - The purpose of this fund is to account for funds received from a bond issuance. The funds may be used for completing major public parks development and courthouse renovations.

Justice Center Expansion Corporation Fund – The purpose of this fund is to account for funds received from a bond issuance and rental payments received from the Administrative Office of the Courts. The funds may be used for completing major renovations of the Justice Center and debt service payments.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Park Enterprise Fund, Emergency 911 Fund, Federal Drug Forfeiture Fund, General Obligation Bond Fund, and Regional Jail Corporation Fund.

In the prior year audit report, the Justice Center Expansion Corporation Fund was presented as a non-major fund based on management's decision and the GASB 34 reporting requirements described above. In the current year report, this fund did meet the reporting requirements for major fund designation. It is included in the current year report as a major fund.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Park Enterprise Fund, Emergency 911 Fund, and Federal Drug Forfeiture Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The County Bond Sinking Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Funds:

The General Obligation Bond Fund, Regional Jail Corporation Fund, and Justice Center Expansion Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to the jail inmate.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

Detailed presentations of the financial statements for the Inter-Modal Transportation Authority, Inc., and South Central Kentucky Regional Development Authority major discretely presented component units of the Warren County Fiscal Court, are available from the separately issued financial statements of these component units. The financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Interest costs of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, are capitalized on debt where proceeds are used to finance land acquisition and development costs. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Bond and note issuance costs, bond discounts, and the difference between the requisition price and the net carrying value of refunded debt of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, are capitalized and amortized over the terms of the respective bonds and notes using a method that approximates the effective interest method.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Use Of Estimates

The preparation of financial statements of the Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority discretely presented component units of Warren County Fiscal Court, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported revenues and expenses during the reported period. Actual results could differ from those estimates.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointments. Based on these criteria, the following are considered related organizations of Warren County Fiscal Court: Animal Control Board, Codes Enforcement Board, Industrial Development Authority, and Warren County Water District.

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the following is considered a joint venture of the Warren County Fiscal Court:

Joint City-County Planning Commission

The Warren County Fiscal Court has maintained an ongoing financial responsibility for the Joint City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and Cities of Bowling Green, Plum Springs, Smiths Grove, Woodburn, and Oakland to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Bowling Green are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2006, the Fiscal Court contributed \$500,000 to the Planning Commission.

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following are considered jointly governed organizations of the Warren County Fiscal Court: Bowling Green-Warren County Regional Airport Board, Joint City-County Board of Adjustment, Contractors Licensing Board, Depot Development Authority, Design Review Board, Historic Preservation Board, Bowling Green Area Convention and Visitors Bureau, Military Liaison Board, and Bowling Green-Warren County Greenbelt Advisory Committee.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Interfund Transactions

The Warren County Fiscal Court has the following type of interfund transactions:

Interfund Transfers - Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. The composition of the interfund transfers is presented in Note 6. Note that at the entity-wide level, the interfund transfers have been eliminated. This is to avoid revenues and expenses from being reported more than once.

Note 2. Deposits and Investments

A. Deposits

The primary government and Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority, its discretely presented component units, maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The primary government and its discretely presented component units met these requirements.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The primary government and its discretely presented component units do not have deposit policies for custodial credit risk but rather follow the requirements of KRS 41.240(4). As of June 30, 2006, all deposits of the primary government and its discretely presented component units were covered by FDIC insurance or a properly executed collateral security agreement.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments

As of June 30, 2006, the primary government had the following investments and maturities:

<u>Investment Type</u>	<u>Maturity Date</u>	<u>Fair Value (Cost)</u>	<u>Credit Rating</u>	<u>Concentration Percentage</u>
Federal Home Loan Banks	07/11/2006	\$ 100,000	AAA	100%
Federal National Mortgage Association	07/12/2006	745,000	AAA	100%
Federal Home Loan Mortgage Corporation	07/15/2006	100,000	AAA	100%
Federal Home Loan Banks	07/21/2006	120,000	AAA	100%
Federal Home Loan Banks	07/28/2006	340,000	AAA	100%
Federal Home Loan Banks	07/28/2006	50,000	AAA	100%
Federal Home Loan Banks	08/11/2006	782,573	AAA	100%
Federal Home Loan Banks	08/11/2006	244,477	AAA	100%
Federal Home Loan Banks	08/15/2006	635,920	AAA	100%
Federal Home Loan Banks	08/18/2006	248,978	AAA	100%
Federal Home Loan Banks	08/18/2006	199,554	AAA	100%
Total Investments		<u>\$3,566,502</u>		

Interest Rate Risk - Investments

Warren County Fiscal Court does not have formal investment policies that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk and Concentration of Credit Risk - Investments

KRS 66.480, Warren County Fiscal Court (Fiscal Court) limits the Fiscal Court's investments in the following: obligations of the United States and its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution rated in on of the three highest categories by a nationally recognized rating agency; banker's acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in one of the three highest categories by nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Fiscal Court has an investment policy that states that no investment may be purchased on a margin basis or through the use of any similar leveraging techniques and that amounts over FDIC or SPIC coverage must be insured or collateralized. Also, Fiscal Court is limited to investing no more than 20% in any one of the following investments as allowed by KRS 66.480: certificates of deposit issued by a bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency, banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency, commercial paper rated in the highest

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Credit Risk and Concentration of Credit Risk – Investments (Continued)

category by a nationally recognized rating agency, or securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized agency. Fiscal Court has no investment policies that would further limit its investment choices. In general, U. S. government obligations or obligations guaranteed by the United States Government are not subject to credit risk.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments held in the possession of an outside party. Fiscal Court does not have an investment policy for custodial credit risk.

Note 3. Restricted Assets

A. Inter-Modal Transportation Authority, Inc.

Certain proceeds of the Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, revenue bonds and revenue bond and anticipation notes are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants, as the ITA's bond agreements require certain debt sinking reserves.

Separate trust accounts are maintained by two separate trustees for the ITA's Series 2003A and Series 2003D revenue bond issues and for the ITA's Series 2004 and 2005 revenue bonds and Series 2004A revenue and bond anticipation note issues. The sinking funds are held and maintained by the trustee as the primary source of payment of the principal and interest on the bonds and notes. Also, revenue bond acquisition and construction funds are utilized for project development, land acquisition, and construction costs.

During the year ended June 30, 2006, the trustee of Central Bank and Trust Company required that the ITA invest an additional \$1,265,000 into the sinking funds for the ITA's Series 2004 and 2005 revenue bonds and Series 2004A revenue and bond anticipation notes. This required funding is an amount in addition to the original invested funds as required by the debt agreements. The restricted investments – certificated of deposits held by the ITA total \$1,265,000, earning yields that range from 5.20% to 5.35%, with maturity dates that vary from November 1, 2006 to May 10, 2007.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Restricted Assets (Continued)

A. Inter-Modal Transportation Authority, Inc.

Restricted cash, cash equivalents, and investments that are held by trustees consist of the following at June 30, 2006:

	Fiscal Year Ended June 30, 2006
\$2,415,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003A Sinking Fund	\$ 14,526
\$2,800,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003D Sinking Fund	127
\$8,395,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2004 Sinking Fund	873,637
Acquisition and Construction Fund	87,869
\$4,750,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue and Bond Anticipation Notes, Series 2004A Sinking Fund	270,031
Acquisition and Construction Fund	389,755
\$6,640,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2005 Sinking Fund	395,670
Acquisition and Construction Fund	853,270
Total Restricted Assets	<u>\$ 2,884,885</u>
Included in the following balance sheet captions:	
Restricted Cash and Cash Equivalents	\$ 1,619,885
Restricted Investments	<u>1,265,000</u>
Total	<u>\$ 2,884,885</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Restricted Assets (Continued)

B. South Central Kentucky Regional Development Authority

Certain proceeds of the South Central Kentucky Regional Development Authority's (RDA), a discretely presented component unit of the Warren County Fiscal Court, debt issuances are classified as restricted net assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants, as RDA's debt agreements require certain debt sinking reserves.

A separate trust account is maintained by a trustee for the RDA's Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series W. The sinking funds are held and maintained by the trustee as the primary source of payment of the interest on the debt for a specified period of time.

Restricted cash equivalents that are held by trustees consist of the following at June 30, 2006:

	Fiscal Year Ended June 30, 2006
\$3,315,000 Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series W Sinking Fund	\$ 208,857

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 6,939,281	\$ 31,000		\$ 6,970,281
Construction In Progress	4,529	110,646		115,175
Total Capital Assets Not Being Depreciated	6,943,810	141,646		7,085,456
Capital Assets, Being Depreciated:				
Buildings	45,833,337			45,833,337
Other Equipment	1,311,665	479,363		1,791,028
Land Improvements	2,503,441	113,490		2,616,931
Vehicles and Equipment	5,544,785	155,500	(108,596)	5,591,689
Infrastructure	104,900,348	747,473		105,647,821
Total Capital Assets Being Depreciated	160,093,576	1,495,826	(108,596)	161,480,806
Less Accumulated Depreciation For:				
Buildings	\$ (3,687,091)	\$ (599,488)		\$ (4,286,579)
Other Equipment	(557,797)	(171,519)		(729,316)
Land Improvements	(96,580)	(101,330)		(197,910)
Vehicles and Equipment	(2,910,835)	(401,898)	105,596	(3,207,137)
Infrastructure	(73,084,015)	(3,361,184)		(76,445,199)
Total Accumulated Depreciation	(80,336,318)	(4,635,419)	105,596	(84,866,141)
Total Capital Assets, Being Depreciated, Net	79,757,258	(3,139,593)	(3,000)	76,614,665
Governmental Activities Capital Assets, Net	\$ 86,701,068	\$ (2,997,947)	\$ (3,000)	\$ 83,700,121

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Capital Assets (Continued)

Primary Government: (Continued)	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 80,758	\$ 23,334	\$ (18,846)	\$ 85,246
Total Capital Assets Being Depreciated	80,758	23,334	(18,846)	85,246
Less Accumulated Depreciation For:				
Vehicles	(61,530)	(9,003)	18,346	(52,187)
Total Accumulated Depreciation	(61,530)	(9,003)	18,346	(52,187)
Total Capital Assets, Being Depreciated, Net	19,228	14,331	(500)	33,059
Business-Type Activities Capital Assets, Net	<u>\$ 19,228</u>	<u>\$ 14,331</u>	<u>\$ (500)</u>	<u>\$ 33,059</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 442,558
Protection to Persons and Property	530,258
General Health and Sanitation	3,299
Recreation and Culture	201,834
Roads, Including Depreciation of General Infrastructure Assets	<u>3,457,470</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,635,419</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 9,003</u>
Total Depreciation Expense - Business Activities	<u>\$ 9,003</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for discretely presented component units of the Warren County Fiscal Court for the year ended June 30, 2006 was as follows:

Discretely presented component units:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 8,300	\$ 3,000,000	\$	\$ 3,008,300
Total Capital Assets Not Being Depreciated	8,300	3,000,000		3,008,300
Capital Assets, Being Depreciated:				
Depreciated:				
Land Improvements		11,050		11,050
Buildings	283,500			283,500
Building Improvements	102,442			102,442
Other Equipment	31,218			31,218
Vehicles and Equipment	64,248			64,248
Web-Site Development Costs	17,260	19,950		37,210
Total Capital Assets Being Depreciated	498,668	31,000		529,668
Less Total Accumulated Depreciated:	(79,026)	(27,575)		(106,601)
Total Capital Assets, Being Depreciated, Net	419,642	3,425		423,067
Capital Assets, Net	\$ 427,942	\$ 3,003,425	\$ 0	\$ 3,431,367

Depreciation expense was charged to functions of the discretely presented major component units of the Warren County Fiscal Court as follows:

<u>Business-Type Activities</u>	
Inter-Modal Transportation Authority, Inc.	\$ 27,575
Total Depreciation Expense	\$ 27,575

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 5. Land Held For Industrial Development and Sale - Inter-Modal Transportation Authority, Inc.

At June 30, 2006 the Inter-Modal Transportation Authority, Inc.'s (ITA) a discretely presented component unit of the Warren County Fiscal Court, land held for industrial development and sale consists of the following:

The ITA has approximately 59.8 acres available for sale in an established area of the industrial park.

The ITA has approximately 427.47 acres available for sale in an area of the industrial park that is approximately 75% developed. This portion of the project has a total estimated cost of \$25,888,000, with \$19,311,309 of cost incurred to date. The remaining construction of infrastructure necessary to fully develop this area of the Transpark is the construction of various roadways and the construction of a railroad coming into the Transpark. This area of the Transpark is expected to be completely developed by 2008.

The ITA has approximately 71.27 acres of undeveloped land.

As of June 30, 2006 the ITA's land held for industrial development and sale consists of the following:

	Development Cost ¹
Completed - 59.8 Acres	\$ 2,179,385
In Progress - 427.47 Acres	19,000,173
Undeveloped Land - 71.27 Acres	<u>1,172,746</u>
Total	<u>\$22,352,304</u>

¹ Approximately 88 acres have been used in the construction of infrastructure.

All land held for development and sale is located in the Bowling Green and Warren County, Kentucky area.

Note 6. Interfund Transactions

The table below shows the interfund operating transfers for fiscal year 2006.

	General Fund	Jail Fund	Justice Center Expansion Corporation Fund	Non-Major Governmental Funds	Total Transfers In
General Fund	\$	\$	\$ 32	\$	\$ 32
Road Fund	450,000				450,000
Jail Fund	650,000				650,000
County Bond Sinking Fund	113,964				113,964
Justice Center Expansion Corporation Fund	246,960			6,920	253,880
Non-Major Governmental Funds	<u>669,204</u>	<u>737,909</u>	<u>6,920</u>		<u>1,414,033</u>
Total Transfers Out	<u>\$ 2,130,128</u>	<u>\$ 737,909</u>	<u>\$ 6,952</u>	<u>\$ 6,920</u>	<u>\$ 2,881,909</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 6. Interfund Transactions (Continued)

Reasons for transfers: 1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them and 2) to move resources from funds recording the revenue to the fund making the debt service payments or other expenditures

Note 7. Leases – South Central Kentucky Regional Development Authority

South Central Kentucky Regional Development Authority's (RDA), a discretely presented component unit of the Warren County Fiscal Court, leasing activities, as a lessor, consist of leasing property, plant and equipment under a direct financing lease and operating lease expiring through 2025.

• **Capital Leases**

During the year ended June 30, 2005, a tenant of an industrial park, owned and operated by a related party, entered into a direct financing lease agreement with RDA. Per the lease agreement, the lessee has the exclusive option to purchase the assets at any date, upon 20 days notice, at a price equal to the amount necessary to retire all of the outstanding related industrial revenue bonds.

The following is a summary of the components of RDA's net investment in the direct financing lease at June 30, 2006.

	<u>2006</u>
Total minimum lease payments receivable	\$ 259,971,931
Unearned interest revenue	<u>(122,579,315)</u>
Net Investment	<u><u>\$ 137,392,616</u></u>

Unearned income is amortized to lease income by the interest method using a constant periodic rate over the lease term.

The following is a schedule of the future minimum capital lease payments to be received as of June 30:

2007	\$ 9,790,162
2008	6,715,919
2009	6,715,919
2010	6,715,919
2011	6,715,919
Thereafter	<u>223,318,093</u>
Total Minimum Lease Payments Receivable	<u><u>\$ 259,971,931</u></u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 7. Leases – South Central Kentucky Regional Development Authority (Continued)

• **Operating Lease**

During the year ended June 30, 2006, RDA entered into a sale-leaseback arrangement where RDA purchased 60 acres of undeveloped land, adjacent to the Kentucky Transpark, from the Inter-Modal Transportation Authority, a related party, for \$3,000,000 and leased it back for a period of five years. In order to finance the purchase of this land, RDA borrowed funds through the Kentucky Area Development District's Financing Trust Lease Acquisition Program (Note 8).

The future minimum rental payments under this operating lease are payable each May 1 and November 1, beginning May 1, 2008. The lease term for RDA's operating lease expires during 2011.

The following is a schedule of future minimum rentals under the operating lease at June 30, 2006 for each of the next 5 years and in the aggregate are:

<u>For the Year Ending June 30,</u>	
2008	\$ 94,259
2009	141,388
2010	141,388
2011	3,362,128
	<u>\$ 3,739,163</u>

Note 8. Long-term Debt

A. General Obligation Improvement Bonds, Series 1999

The Warren County Fiscal Court issued obligations, dated May 1, 1999 and payable in 20 annual installments beginning March 1, 2000, with \$1,290,000 term bonds due on March 1, 2020, and semi-annual interest payments on the first of March and September at varying rates from 3.200% to 4.875%. The Fiscal Court issued the bonds for the purpose of purchasing fire protection equipment and constructing an addition to and renovating the Warren County Regional Detention Facility. As of June 30, 2006, bonds outstanding were \$4,855,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 345,000	\$ 225,161
2008	260,000	210,930
2009	275,000	199,490
2010	285,000	187,390
2011	300,000	174,850
2012-2016	1,710,000	657,440
2017-2020	1,680,000	209,625
Totals	<u>\$ 4,855,000</u>	<u>\$ 1,864,886</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

B. General Obligation Bonds, Series 2000

The Warren County Fiscal Court issued obligations, dated December 1, 2000 and payable in 17 annual installments beginning March 1, 2001, with the term bonds due on September 1 of the years 2012, 2023, 2026, and 2029; semi-annual interest payments at rates ranging from 4.75% to 5.20%. The Fiscal Court issued the bonds for the following purposes: i) redeeming prior to their stated maturity all the outstanding Warren County General Obligation Bond Anticipation Notes, Series 1999 (the "Prior Notes") dated July 1, 1999, originally issued to pay certain costs associated with construction of the Warren County Judicial Facility; ii) reimbursing the County for land acquisition costs associated with the parks projects; iii) depositing to the Construction Fund sufficient monies to complete a portion of the Project, and, iv) paying the costs of issuance of the bonds. As of June 30, 2006, bonds outstanding were \$9,320,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 100,000	\$ 473,898
2008	170,000	467,418
2009	185,000	458,898
2010	195,000	449,778
2011	215,000	439,938
2012-2016	1,310,000	2,022,749
2017-2021	1,835,000	1,629,743
2022-2026	2,525,000	1,069,250
2027-2030	2,785,000	308,230
Totals	<u>\$ 9,320,000</u>	<u>\$ 7,319,902</u>

C. General Obligation Improvement Bonds, Series 2002

The Warren County Fiscal Court issued obligations, dated December 1, 2002 and payable in 15 annual installments beginning August 1, 2003, with the term bonds due on February 1 of the years 2020, 2024, 2026, and 2028; semi-annual interest payments at rates ranging from 4.00% to 4.50%. The fiscal court issued the bonds for the following purposes: i) completing major public parks, land acquisition and development plan; ii) remodeling the existing Warren County Courthouse; and, iii) paying the costs of issuance on the bonds. As of June 30, 2006, bonds outstanding were \$5,210,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 150,000	\$ 226,573
2008	155,000	220,573
2009	160,000	214,373
2010	165,000	207,973
2011	175,000	201,373
2012-2016	985,000	893,550
2017-2021	1,205,000	663,600
2022-2026	1,510,000	368,550
2027-2028	705,000	47,925
Totals	<u>\$ 5,210,000</u>	<u>\$ 3,044,490</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

D. General Obligation Improvement Bonds, Series 2004

The Warren County Fiscal Court issued obligations, dated March 1, 2004 and payable in 11 annual installments beginning March 1, 2005, with \$1,600,000 term bonds due on March 1 of the years 2018, 2021, and 2024; and semi-annual interest payments on the first of March and September at varying rates from 2.00% to 4.30%. The Fiscal Court issued the bonds for the purpose of i) completing a major public parks land acquisition and development plan; ii) remodeling of the existing Warren County Courthouse; and iii) paying the costs of issuance on the bonds. As of June 30, 2006, bonds outstanding were \$1,480,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 60,000	\$ 52,789
2008	65,000	51,589
2009	65,000	50,191
2010	65,000	48,598
2011	70,000	46,811
2012-2016	370,000	199,273
2017-2021	455,000	125,560
2022-2024	330,000	28,475
Totals	<u>\$ 1,480,000</u>	<u>\$ 603,286</u>

E. General Obligation Refunding Bonds, Series 2004B

The Warren County Fiscal Court issued obligations, dated September 9, 2004, for the i) refunding the outstanding Public Project Revenue Bonds (Warren County Class D Facility), Series 1996, of the Warren County Regional Jail Corporation, an agency and instrumentality of the Fiscal Court; and, ii) paying the cost of issuance on the Bonds. The issue amount of the bonds was \$2,620,000. The interest rate varies from 2.00% to 3.70% with semi-annual interest payments on the first of December and June. As of June 30, 2006, bonds outstanding were \$2,210,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 195,000	\$ 65,689
2008	200,000	61,490
2009	205,000	56,421
2010	210,000	50,453
2011	215,000	44,078
2012-2016	1,185,000	107,554
Totals	<u>\$ 2,210,000</u>	<u>\$ 385,685</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

F. Public Projects Revenue Bonds, Series 1996

On September 9, 2004, the Warren County Fiscal Court advance refunded the public projects revenue bonds, 1996 series, issued by the Warren County Regional Jail Corporation. Payments due on and after December 1, 2004 were paid from the escrow account. The bonds will be called on December 1, 2006. Total bonds outstanding as of June 30, 2006 totaled \$2,415,000. As of June 30, 2006, the escrow account had a balance of \$2,491,252.

G. First Mortgage Revenue Bonds, Series 1997A

The Justice Center Expansion Corporation (Corporation), an agency and instrumentality of the Fiscal Court issued obligations; dated June 1, 1997 and payable in 14 annual installments beginning September 1, 2000, with the term bonds due on September 1 of the years 2015, 2017, 2024, and 2029; semi-annual interest payments at rates ranging from 5.125% to 5.25%.

The Corporation entered into a contract lease and option with the Administrative Office of the Courts (AOC). The lease provides the AOC lease the project site and project at a rental equal to the full amount of the principal and interest requirements on the bonds for each year in which the lease is renewed. On July 1 of each even numbered year, the lease may be renewed by AOC for another biennial period of two years. Should the AOC renew the lease until the bonds mature, the Corporation will convey the project site and the project to the Fiscal Court. As of June 30, 2006, bonds outstanding were \$940,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 460,000	\$ 36,388
2008	480,000	12,300
Totals	<u>\$ 940,000</u>	<u>\$ 48,688</u>

On December 1, 2005, the Warren County Justice Center Expansion Corporation, an agency and instrumentality of the County advance partially refunded the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1997A, in the original amount of \$23,750,000 and the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1999B, in the original principal amount of \$3,460,000 (collectively "Prior Bonds"), the proceeds of which were used to finance the acquisition, expansion, construction, installation and equipping of the Warren County Justice Center building and facilities (hereinafter "Facility"). The Facility financed and constructed with the proceeds from the Prior Bonds was leased by the Corporation to the Administrative Office of the Courts of the Commonwealth of Kentucky (the "AOC") and the County, pursuant to a Lease Agreement dated as of July 1, 1997, and an Amendment to Lease Agreement dated July 1, 1999 (collectively referred to as "Lease"). The Lease has been assigned to Trustee pursuant to an Assignment of Lease Agreement by and between the Corporation, the County, and the AOC dated as of December 1, 2005. As of June 30, 2006, the escrow account had a balance of \$23,922,464.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

H. First Mortgage Revenue Bonds, Series 1999B

The Justice Center Expansion Corporation (Corporation), an agency and instrumentality of the Fiscal Court, issued \$3,460,000 First Mortgage Revenue Bonds on July 1, 1999 for the purpose of renovating and expanding the existing courthouse annex. The bonds are payable in 15 annual installments on the 1st of September, with term bonds due on September 1, of 2019, 2024, and 2029, and semi-annual interest payments due March and September at varying rates from 3.70% to 5.350%.

The Corporation, the Fiscal Court, and the State Administrative Office of the Courts (AOC) have entered into a lease agreement, dated July 1, 1999 wherein the AOC shall lease from the Corporation a portion of the project and project site at an agreed rental, which rental amount will be assigned by the Corporation to the Trustee and is anticipated to be adequate to pay 100% of the principal and interest on the Bonds. The lease does not require the Fiscal Court to make any rental payments toward the project; however, the Fiscal Court is obligated to provide operation, maintenance, insurance, and repair of the project. As of June 30, 2006, bonds outstanding were \$285,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 65,000	\$ 12,313
2008	70,000	9,105
2009	75,000	5,588
2010	75,000	1,875
Totals	<u>\$ 285,000</u>	<u>\$ 28,881</u>

On December 1, 2005, the Warren County Justice Center Expansion Corporation, an agency and instrumentality of the County advance partially refunded the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1997A, in the original amount of \$23,750,000 and the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1999B, in the original principal amount of \$3,460,000 (collectively "Prior Bonds"), the proceeds of which were used to finance the acquisition, expansion, construction, installation and equipping of the Warren County Justice Center building and facilities (hereinafter "Facility"). The Facility financed and constructed with the proceeds from the Prior Bonds was leased by the Corporation to the Administrative Office of the Courts of the Commonwealth of Kentucky (the "AOC") and the County, pursuant to a Lease Agreement dated as of July 1, 1997, and an Amendment to Lease Agreement dated July 1, 1999 (collectively referred to as "Lease"). The Lease has been assigned to Trustee pursuant to an Assignment of Lease Agreement by and between the Corporation, the County, and the AOC dated as of December 1, 2005. As of June 30, 2006, the escrow account had a balance of \$23,922,464.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

I. First Mortgage Refunding Revenue Bonds, Series 2005

The Warren County Justice Center Expansion Corporation (the "Corporation") adopted a Resolution on November 18, 2005, authorizing the issuance of the Bonds from which the net proceeds thereof will be used to (i) purchase an escrow scheduled to mature at such times and in such amounts as are necessary and will be adequate, with investment or reinvestment thereof, to pay the accruing interest on and refund in advance of the scheduled maturity of the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1997A, dated June 1, 1997 (the "1997A Bonds"); and, the Warren County Justice Center Expansion Corporation First Mortgage Revenue Bonds (AOC Judicial Facility), Series 1999B, dated July 1, 1999, (the "1999B Bonds") (collectively, the "Prior Bonds"), and, (ii) pay the cost of the Bond issuance expenses. The Corporation was created by the County to act as the agency and instrumentality of the County in acquiring, developing, and financing public improvements and public projects. As a result, the Series 1997A and Series 1999B are considered to be partially defeased and the partial liability for those bonds has been removed from the government-wide statement of net assets.

Interest on the Bonds is payable each March 1 and September 1, beginning March 1, 2006. The Bonds will mature as to principal on March 1, 2006 and September 1, 2006 and each September 1 thereafter as shown below. The Bonds are being issued as fully registered and will be available for purchase in principal in principal amounts of \$5,000 and integral multiples thereof. The outstanding balance as of June 30, 2006 was \$25,635,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 145,000	\$ 1,073,793
2008	155,000	1,068,167
2009	660,000	1,052,886
2010	690,000	1,027,574
2011	790,000	999,824
2012-2016	4,475,000	4,500,838
2017-2021	5,465,000	3,498,989
2022-2026	6,765,000	2,203,877
2027-2030	6,490,000	590,253
Totals	<u>\$ 25,635,000</u>	<u>\$ 16,016,201</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

J. Office Buildings

On December 19, 1994, the Warren County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of office buildings for the Health Department. The principal was \$580,000 at an effective interest rate of 6.94 percent for a period of 15 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2006, was \$166,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2007	\$ 52,000	\$ 7,671
2008	55,000	4,847
2009	59,000	1,843
Totals	<u>\$ 166,000</u>	<u>\$ 14,361</u>

K. Vehicles For Sheriff's Department

On November 4, 2004, the Warren County Fiscal Court entered into an agreement with the Kentucky Area Development District Leasing Fund (KADD) for the purchase of vehicles for the sheriff's department. The principal was \$230,000 at a variable interest rate for a period of 4 years, with interest paid semiannually and principal paid annually. The principal outstanding as of June 30, 2006, was \$175,000. Future principal and interest requirements are:

Fiscal Year Ended June 30		
	Principal	Interest & Fees
2007	\$ 55,000	\$ 4,937
2008	60,000	3,350
2009	60,000	1,225
Totals	<u>\$ 175,000</u>	<u>\$ 9,512</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

L. Revenue Bonds – Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, long-term debt consists of the following at June 30, 2006:

	Fiscal Year Ended June 30, 2006
Revenue Bonds, Series 2003A (a)	\$ 2,415,000
Revenue Bonds, Series 2003D (b)	2,800,000
Revenue Bonds, Series 2004 (c)	8,382,250
Revenue Bonds and Bond Anticipation Notes, Series 2004A (d)	4,737,250
Revenue Bonds, Series 2005 (e)	<u>6,627,250</u>
	\$ 24,961,750
Less current portion	(300,000)
Less unamortized bond discount	(310,484)
Less unamortized deferred amount arising from refunded bonds	<u>(56,113)</u>
Total Long-Term Debt	<u><u>\$ 24,295,153</u></u>

- (a) \$2,415,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003A, dated July 29, 2003; fully registered bonds in the dominations of \$5,000 or any integral multiple thereof; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any of project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.875% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (b) \$2,800,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003D, dated September 30, 2003; fully registered bonds in the denomination of \$5,000 or any integral multiple therefore; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.80% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (c) \$8,395,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2004, dated February 1, 2004; fully registered bonds in the denominations of \$5,000 or any integral multiple therefore; maturing as to principal on February 1 in annual installments of \$300,000 to \$550,000, beginning February 1, 2007 through February 1, 2024; thereafter \$1,175,000, 4.50% term bonds due February 1, 2026; bonds maturing after February 1, 2014 and thereafter subject to optional prior redemption on or after August 1, 2013; term bonds due February 1, 2026 subject to mandatory sinking fund redemption on February 1, 2025 in the principal amount of \$575,000; the remaining \$600,000 principal amount of term bonds due on February 1, 2026; interest at 2.00% to 4.50% payable semi-annually on February 1 and August 1, beginning August 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

L. Revenue Bonds – Inter-Modal Transportation Authority, Inc. (Continued)

- (d) \$4,750,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue and Bond Anticipation Notes, Series 2004A, dated February 9, 2004; fully registered bonds in the denominations of \$100,000 and multiples of \$25,000 over that; maturing as to principal on June 30, 2009; subject to optional redemption on the last day of any calendar month beginning June 30, 2004 in an amount not less than \$100,000; subject to mandatory redemption, beginning June 30, 2005 and each June 30 thereafter, unless on or before May 15, 2005, and on or before each May 15 thereafter, registered owner submits written mandatory, to date of redemption if redeemed earlier than June 30, 2005, and each June 30 thereafter; variable interest rate is computed annually at LIBOR plus .475%; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (e) \$6,640,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2005, dated January 1, 2005; fully registered bonds in the denominations of \$5,000 or any integral multiple therefore; maturing as to principal on February 1 in annual installments of \$250,000 to \$490,000, beginning February 1, 2008 through February 1, 2026; subject to optional prior redemption on or after February 1, 2015 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.00% to 4.50% payable semi-annually on February 1 and August 1, beginning August 1, 2005; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (f) Maturities of long-term debt are as follows for the year ended June 30, 2006:

Fiscal Year Ended June 30	Revenue Bonds		Revenue and Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2007	\$ 300,000	\$ 785,475	\$	\$ 275,205
2008	555,000	779,475		275,205
2009	575,000	764,351	4,737,250	275,205
2010	590,000	747,101		
2011	605,000	728,587		
2012-2016	8,565,000	2,817,947		
2017-2021	4,055,000	1,626,328		
2022-2026	4,979,500	688,556		
	<u>\$ 20,224,500</u>	<u>\$ 8,937,820</u>	<u>\$ 4,737,250</u>	<u>\$ 825,615</u>

Variable Rate Terms – Interest requirements for the First Mortgage Revenue and Bond Anticipation Notes, Series 2004A, variable rate debt, is calculated using the interest rate effective at the end of the reporting year. The interest rate is reset annually and is based upon the reported one month LIBOR rate.

As of June 30, 2006 approximately 422 acres of the ITA's total acres of approximately 558.54 acres, are encumbered by the five outstanding debt issuances referenced above. In order for the ITA to sell any of the 422 encumbered acres they must obtain a partial release from the trustee. According to the mortgage agreements for each debt issuance, there are three ways in which the ITA could obtain a partial release provision. They are as follow, pursuant to the mortgage agreements:

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

L. Revenue Bonds – Inter-Modal Transportation Authority, Inc. (Continued)

- 1) A partial release may be obtained if the infrastructure facilities, the parcel of parcels thereof, or interest in the land being released or removed shall be used to contrast public improvements, or for granting of an easement, or their interest or title to a public utility, public or private carrier or public body for providing or improving utility services or transportation facilities, or the acquisition or construction of any “public project” within the meaning of KRS 58.010.
- 2) A partial release provision may be obtained if the ITA files with the Trustee a copy of the instrument providing for a release together with (a) certificate of an Authorized Officer of the Corporation describing the utility or other facilities and services which will be provided or improved thereby and that, in the opinion of such Authorized Officer, such Infrastructure Facilities are not otherwise needed for the operation of the project and that the release will not materially impair the efficiency or utilitarian value of the project or the project site and (b) evidence satisfactory to the trustee that the value of the project following such release shall not be less than the principal amount of bonds then outstanding.
- 3) A partial release may be obtained so that the ITA could sell a portion of the land so long as the proceeds are used to redeem a portion of the bonds. As of June 30, 2006, the ITA must redeem approximately \$59,000 of the bonds for each acre in which it wishes to obtain a release.

Upon the ITA’s issuance of its First Mortgage Revenue Bonds, Series 2003A, 2003D, 2004 and 2005 and its First Mortgage Revenue and Bond Anticipation Notes, Series 2004A, the ITA simultaneously entered into respective contract, lease and option agreements with the Warren County, Kentucky. Pursuant to the contract, lease, and option agreements, the Fiscal Court guarantees its obligation to make debt payments to the trustee on behalf of the ITA if the ITA becomes unable to meet its debt service requirements. The Fiscal Court’s obligations to make payments, if necessary, are absolute and unconditional, subject to the rights of the Fiscal Court to renew. On each July 1, the contract may be renewed for another period of one year. The contract renewal shall automatically be considered to be exercised each year unless written notice is provided to the ITA at least 90 days prior to the renewal date.

M. Bonds – South Central Kentucky Regional Development Authority

The South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, long-term debt consists of the following at June 30, 2006:

	<u>2006</u>
Industrial Building Revenues Bonds, Series 2004 A and B (a)	\$ 134,318,373
Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series W (b)	<u>3,315,000</u>
Total Long-Term Debt	<u><u>\$ 137,633,373</u></u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

M. Bonds – South Central Kentucky Regional Development Authority (Continued)

- a) South Central Kentucky Regional Development Authority Taxable Industrial Building Revenue Bonds, Series 2004 A and Series B (referred to collectively as the “Bonds”) in the aggregate amount of up to \$167,000,000 (authorized to issue Series A up to \$100,200,000 and Series B up to \$66,800,000); maturing as to principal on October 1, 2024; interest at 5% payable semi-annually on January 1 and July 1, beginning July 1, 2005; secured by the assignment of the minimum lease payments that are to be made by the lessee under a direct capital lease agreement, as discussed in Note 7. The lessee of the capital lease also entered into a loan agreement with RDA further guaranteeing the payment of the Series B Bonds. Prepayments of the Bonds may be made, in whole or in part, at any time, at the option of the lessee of the capital lease.
- b) Kentucky Area Development District’s Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series W, dated November 23, 2005; maturing as to principal on November 1, 2010; interest at 4.25% payable semi-annually on May 1 and November 1, beginning May 1, 2006; secured by the assignment of the operating lease payments that are to be made by the lessee under an operating lease, as discussed in Note 7. RDA has the option to prepay the Certificates in full by paying the “Optional Prepayment Price,” which will amount to the unpaid principal component of the obligation increased by any unpaid accrued interest plus an amount equal to the premium, if any, payable on the Certificates to be redeemed. RDA may prepay the Certificates in minimum amounts of \$50,000 or in lesser amounts if properly approved. Pursuant to the operating lease agreement securing payment of the Certificates, any prepayments are at the option of the lessee.
- c) Maturities of long-term debt are as follows for the year ended June 30, 2006:

Year Ending June 30,	Principal	Interest
2007	\$	\$ 6,856,807
2008		6,856,807
2009		6,856,807
2010		6,856,807
2010	3,315,000	6,762,882
2012-2016		33,579,595
2017-2021		33,579,595
2022-2026	134,318,373	21,840,536
	<u>\$ 137,633,373</u>	<u>\$ 123,189,836</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 8. Long-term Debt (Continued)

N. Changes In Long-term Liabilities

Long-term liability activity for the primary government for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Bonds	\$23,895,000	\$	\$ 820,000	\$23,075,000	\$ 850,000
Revenue Bonds	24,970,000	25,960,000	24,070,000	26,860,000	670,000
Financing					
Obligations	472,983		131,983	341,000	107,000
Governmental Activities					
Long-term					
Liabilities	<u>\$49,337,983</u>	<u>\$25,960,000</u>	<u>\$25,021,983</u>	<u>\$50,276,000</u>	<u>\$ 1,627,000</u>

Long-term liability activity for the discretely presented component units of the Warren County Fiscal Court for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Discretely Presented				
Component Units:				
<u>Business-type Activities:</u>				
Industrial Revenue Bonds	\$ 94,146,101	\$40,172,272	\$	\$ 134,318,373
KADD Certificates of				
Participation		3,315,000		3,315,000
Revenue Bonds	20,250,000		25,500	20,224,500
Less unamortized				
discounts	(329,540)		(19,056)	(310,484)
	<u>19,920,460</u>		<u>6,444</u>	<u>19,914,016</u>
Revenue Bond				
Anticipation Notes	4,750,000		12,750	4,737,250
Less unamortized				
deferred amount on				
refunding	(74,425)		(18,312)	(56,113)
	<u>4,675,575</u>		<u>(5,562)</u>	<u>4,681,137</u>
Business-type Activities				
Long-term Liabilities	<u>\$ 118,742,136</u>	<u>\$43,487,272</u>	<u>\$ 882</u>	<u>\$ 162,228,526</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 9. Interest On Long-term Debt And Financing Obligations

Debt Service of the primary government on the Statement of Activities includes \$16,858 in interest on financing obligations, \$2,034,631 in interest on bonds, \$14,950 in management fees, \$732,919 in bond issuance costs, and \$1,178,002 in payment to refunded bonds escrow agent for amount over principal on public projects bonds refunded.

Note 10. Interim Financing Arrangement – South Central Kentucky Regional Development Authority

During the year ended June 30, 2005, South Central Kentucky Regional Development Authority (RDA) obtained financing from the Kentucky Area Development District's ("KADD") Financing Trust, for interim financing for the construction of a technical training center ("Warren County Technology Center") located on site in the Inter-Modal Transportation Authority's Kentucky Transpark. RDA provided interim financing of the design and construction of the technology center pending the approval of project funding from the Commonwealth of Kentucky, which was approved in the spring of 2005 in the amount of \$7,500,000. Interim project financing consisted of the following:

- \$500,000 KADD Financing Trust Lease Acquisition Program Certificates of Participation, 2004 Series H, dated July 22, 2004; Lease payment equal to the amount of the principal and interest due on the Certificates as of August 1, 2005.
- \$4,000,000 KADD Financing Trust Lease Acquisition Program Certificates of Participation, 2005 Series A, dated January 5, 2005; Lease payment equal to the amount of the principal and interest due on the Certificates as of June 30, 2005.

In September 2004, RDA entered into a contract with an architectural firm to design the Warren County Technology Center and in December 2004, entered into a contract with a contractor to construct the Warren County Technology Center. On June 1, 2005 RDA entered into two Assignment of Contracts with the Commonwealth whereas RDA assigned, transferred and conveyed all of its rights, interests, obligations, and liabilities under its two project related contracts to the Commonwealth and the Commonwealth released RDA from any further responsibilities, obligations or liabilities with respect to the contracts.

On June 21, 2005, RDA wire transferred \$2,985,063 to the Bank of New York Trust Company, lease trustee, representing RDA's remaining unspent lease proceeds applicable to the project. The remaining portion of the principal and interest due on June 30, 2005, applicable to the \$4,000,000 KADD Certificates of Participation, of \$1,068,409 was provided directly by the Commonwealth of Kentucky to the trustee.

Principal and interest totaling \$510,750 due on August 1, 2005, applicable to the \$500,000 KADD Certificates of Participation, was also paid directly by the Commonwealth of Kentucky to the lease trustee on June 21, 2005, except for \$10,691 which was held in trust by the lease trustee.

The Warren County Technology Center project is now owned by the Commonwealth of Kentucky as a unit of the Kentucky Community Technical College system

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 11. Project Financing - Inter-Modal Transportation Authority, Inc.

On February 14, 2001, the Warren County Fiscal Court adopted a resolution authorizing and approving the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, as the agency, instrumentality and constituted authority of the Fiscal Court, to issue up to \$25,000,000 in first mortgage revenue bonds for project financing. The resolution also approved issuance up to \$25,000,000 of bond anticipation notes to provide interim financing for the project pending issuance of the bonds.

On April 2, 2001, the Fiscal Court petitioned the State Local Debt Officer pursuant to KRS 66.310 to issue the bonds. A Warren County taxpayer filed objections and appealed the Fiscal Court's issuance of the bonds. The bond issuance was approved by the State Local Debt Officer, County Debt Commission, the Franklin Circuit Court, and the Kentucky Court of Appeals. The Kentucky Court of Appeals rendered a final non-appealable opinion sustaining and approving the proposed bond issue; therefore, the Warren County taxpayer's appeal was dismissed and no longer subject to any further appeal.

Warren County Fiscal Court and the City of Bowling Green (City), pursuant to the Kentucky Increment Financing Act (KRS 65.680 to 65.699) have adopted ordinances authorizing the creation of a tax increment district in the development area to support the financing of the project, whereby the ITA will receive 80% of the incremental State, City, and County real estate taxes generated by businesses that locate in the development area. The ITA now receives a 1.5% County wage assessment tax based on wages paid by businesses locating in the development area.

The City of Bowling Green, Kentucky, and eleven additional cities and counties of south-central Kentucky, have passed resolutions authorizing and approving the execution of an Interlocal Cooperation Agreement, in accordance with the Interlocal Cooperation Act, pursuant to their support and extent of participation in the project.

The City of Bowling Green has agreed to join the County of Warren in a commitment to jointly, equally, and cooperatively assist in the development of the project.

Note 12. Related Party Transaction

Sale-Leaseback Arrangement With A Related Party

During the year ended June 30, 2006, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, entered into a sale-leaseback arrangement. Under the arrangement, the ITA sold 60 acres of undeveloped Transpark land to the South Central Kentucky Regional Development Authority (RDA), a related party, for \$3,000,000 and leased it back for a period of five years.

The RDA finance the land acquisition with a portion of the proceeds from the Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, Series 2005 Series W, dated November 23, 2005. The Certificates of Participation are secured by a Mortgage and Security Agreement, dated November 23, 2005, on the land.

The lease-back has been accounted for as an operating lease. The future minimum rental payments under this operating lease are payable each May 1 and November 1, beginning May 1, 2006. RDA's

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 12. Related Party Transaction (Continued)

Sale-Leaseback Arrangement With A Related Party (Continued)

certificate proceeds included \$266,055 that was placed in a capitalized interest fund for debt service; therefore, ITA funding of lease payments will not be required to begin until May 1, 2008. Rental payments payable to the ITA and the RDA are in accordance with the terms of the RDA's Lease Agreement through the Kentucky Area Development Districts Financing Trust.

The gain of \$2,520,334 realized in this transaction has been deferred and will be amortized to income in proportion to rental expense over the term of the lease.

Future Minimum Rental Payments Under Operating Leases

Future minimum rental payments under operating leases having remaining terms in excess of one year as of June 30, 2006 for each of the next 5 years and in the aggregate are:

Fiscal Year Ended June 30	Amount
2007	\$ 4,717
2008	73,445
2009	141,388
2010	141,388
2011	3,385,694
Total Minimum Future Rental Payments	<u>\$3,746,632</u>

Note 13. Commitments and Contingencies

A. Lovers Lane Soccer Complex

During 1996, the Warren County Fiscal Court entered into an agreement with the City of Bowling Green to fund 20% of construction costs associated with the Lovers Lane Soccer Complex. The City of Bowling Green Municipal Project Corporation issued \$2,365,000 of Series 1995 Lease Revenue Bonds to finance the project. The Fiscal Court's commitment as of June 30, 2006, totaled \$307,038 payable at varying amounts semiannually in conjunction with the principal and interest payments due on the bonds, which mature November 1, 2015.

B. Community Public Safety/Public Service Mobile Radio Communications System

During 1997, the Warren County Fiscal Court entered into an agreement with the City of Bowling Green to fund 55% of the total cost associated with purchase and establishment of a community public safety/public service mobile radio communications system. The City of Bowling Green Municipal Projects Corporation issued \$1,560,000 of Series 1997 Lease Revenue Bonds to finance the project. The Fiscal Court's commitment as of June 30, 2006, totaled \$73,366 payable in varying amounts semiannually in conjunction with the principal and interest payments due on the bonds, which mature June 1, 2007.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 13. Commitments and Contingencies (Continued)

C. Historic Railroad Depot

An Interlocal Cooperation Agreement relating to the Historic Railroad Depot was entered into on February 2, 2001 by and between the City of Bowling Green (City) and the Warren County Fiscal Court (County). The City and the County authorized the creation of jointly governed organization, a public non-profit corporation known as the Depot Development Authority, a corporation, to act as the agent, instrumentality and constituted authority of the City and the County in connection with the planning, promotion, development, financing, and acquisition by the corporation of the historic railroad station located in Bowling Green. The City and County have agreed to borrow up to \$1,000,000 to repay the debt of the Authority and finish the renovation of the Depot. The City and County have agreed to equally share the costs of this loan over a twenty-year period and to share equally the responsibility and the costs of the remaining renovation, promotion, development, financing, management and maintenance of the historic depot. During fiscal year ended June 30, 2006, the County made payments totaling \$50,301.

D. Health Department

The Warren County Fiscal Court established a county health department under KRS 212.040. Upon the resolution being passed establishing the county health department, the Fiscal Court is required to appropriate a sufficient amount for the creation, establishment, and maintenance of the county health department. The Fiscal Court budgeted \$963,946 and paid \$963,946 for fiscal year ended June 30, 2006. For the fiscal year ended June 30, 2007, the Fiscal Court budgeted \$1,056,391.

E. Construction Commitments - Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, construction commitments as of June 30, 2006 consist of the following:

Project	Spent-to-Date	Remaining Commitment
Grading, Water Lines, Sewer Lines, Storm Water, Landscaping and Related Ponds	\$ 708,351	\$ 151,921
Pavement, Dense Grade, Curb and Gutters		198,177
Total	<u>\$ 708,351</u>	<u>\$ 350,098</u>

The construction commitments will be funded by unspent bond proceeds.

In January 2007, the ITA was awarded a grant for a Community Development Fund Line-Item Project, per an appropriation in House Bill 380 from the Governor's Office for Local Development. The ITA was awarded \$4,500,000 for the construction of a short line railroad into the Transpark. The project scope includes an environmental study, surveying, geotech investigation, land purchases, engineering and design, rail and utility construction. The grant is for a period of eighteen months, ending June 30, 2008.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 13. Commitments and Contingencies (Continued)

F. Agreement For Management And Marketing Services – Inter-Modal Transportation Authority, Inc.

On August 25, 2004, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, and the Bowling Green Area Chamber of Commerce, Inc. (Chamber) entered into an “agreement for management and marketing services.” The Chamber agrees to provide management and marketing services to the ITA, including management of staff, assets and operations, reporting to ITA committees and board of directors, professional management of lead-tracking/project-tracking system for all leads for economic development prospects, development and implementation of economic development marketing plan, administration and oversight of annual budget and long-term financial obligations, coordination of funding initiatives, development and maintenance of database of available industrial buildings and sites in South Central Kentucky, providing primary clerical staff support, and providing public relations and communication services to the ITA. The ITA and the Chamber subsequently entered into a “second supplement to the original agreement for management and marketing services.” This supplement amends the original agreement as follows: The ITA and the Chamber also agree, in addition to the terms of the original agreement, that a joint management committee, to be composed of the chair and vice-chair of the ITA and the chair and vice-chair of the Chamber, will meet with the president on a least a semi-annual basis.

The agreement, effective September 1, 2004, is for a three-year term and may be terminated by either party after one year. The agreement provides for payment of a management fee to the Chamber for services rendered, payable \$12,250 per month in year one, \$12,865 per month in year two, and \$13,515 per month in year three. The management fee is based upon three Chamber professional positions, consisting of President, Vice-President for Economic Development, and Economic Development Coordinator. The fee is adjustable on a prorata basis for vacant positions. In addition, the Chamber will receive one percent (1%) of the net proceeds of all real estate sales in the Transpark if, in any one fiscal year, the ITA sells more than sixty acres. During the year ended June 30, 2006 the ITA sold approximately 72 acres of land. The Chamber elected to not require the ITA to pay the 1% real estate sales pursuant to the management and marketing agreement for the year ended June 30, 2006. The approximate amount that would have been paid by the ITA to the Chamber would have been \$32,000.

The ITA and Chamber entered into a “first supplemental agreement for management and marketing services” effective April 1, 2005. The ITA agrees to provide financial management services for the Chamber by making its Finance Director available to the fullest extent reasonably necessary to perform the duties of Controller of the Chamber. This supplemental agreement is for a three-year term and may be terminated by either party after one year and provides for payment of an initial fee of \$3,042 per month. The fee increases to \$3,195 per month beginning September 1, 2005 and \$3,355 per month beginning September 1, 2006.

Subsequent to the year ended June 30, 2006, the ITA and Chamber entered into a “third supplement agreement for management and marketing services” effective November 1, 2006. This agreement rescinds and replaces all terms, conditions and covenants set out in the first supplement agreement and the Chamber agrees to provide financial management services for the ITA by making its Controller available to the fullest extent reasonably necessary to perform the duties of Finance Director of the ITA. The Chamber also agrees to provide the ITA with administrative assistant services by making its administrative assistant available to the fullest extent reasonably necessary to perform the duties of the Administrative Assistant of the ITA. This supplement agreement is for a three-year term and may be terminated by either party after one year and provides for payment of a fee of \$5,000 per month.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 13. Commitments and Contingencies (Continued)

F. Agreement For Management And Marketing Services – Inter-Modal Transportation Authority, Inc. (Continued)

Net management fees paid by the ITA to the Chamber pursuant to the management agreement and all related supplements totaled \$115,116 for the year ending June 30, 2006. There are not related party receivables or payables as of June 30, 2006.

G. Agreement For Purchase And Sale – Inter-Modal Transportation Authority, Inc

On December 12, 2003, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, entered into an “agreement for purchase and sale” (agreement) relative to the sale of approximately 132 acres of ITA’s Transpark real estate (property). The real estate closing occurred on February 11, 2004. The agreement also grants to buyer an option to purchase approximately 77 acres of Transpark real estate adjacent to the purchased tract, pursuant to a “memorandum of option agreement.” The option to purchase, for a period of 60 months from February 11, 2004, was modified on December 7, 2005 to clarify property description subject to option agreement.

The City of Bowling Green, Kentucky has previously adopted a zoning ordinance permitting the use of the purchased Transpark real estate as “heavy industry” for the buyer’s construction and operation of a new manufacturing plant. As of February 11, 2004, the rezoning of the property was subject to an appeal by certain persons seeking to reverse the rezoning under the provision of KRS 100.347 in the Warren Circuit Court being Civil Action Number 03-CI-1782.

As a result, the ITA entered into an “agreement for reimbursement and repurchase” with the buyer to indemnify the buyer for its economic risk in commencing construction and operation of its manufacturing plant prior to the final determination of the above-referenced civil action. Until a final determination was to be made by the Courts, following the real estate closing on February 11, 2004, the ITA agreed, in the event of a decision overturning the rezoning, to repurchase the property from the buyer and reimburse the buyer for all costs it actually incurred as a result of its acquisition, construction and use of the purchased property.

A final determination was made on December 13, 2006 denying all of the motions for discretionary review filed before it in the second, third, and fourth rezoning appeals.

Note 14. Real Estate Acquisition Commitments – South Central Kentucky Regional Development Authority

As of June 30, 2006, South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, had an outstanding commitment to acquire real estate in future years pursuant to a real estate purchase agreement, totaling \$150,000. The commitment to purchase real estate is effective until November 1, 2007. A down payment was made in the amount \$15,000 upon execution of the agreement and will be forfeited to the seller if closing does not occur prior to November 1, 2007.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 15. Employee Retirement System

The Warren County Fiscal Court and Inter-Modal Transportation Authority, Inc. and South Central Kentucky Regional Development Authority, discretely presented component units of the Warren County Fiscal Court, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 16. Deferred Compensation

On February 24, 2000, the Warren County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 101 Sea Hero Road, Suite 110, Frankfort, Kentucky 40601-8862, or by telephone at (502) 573-7925.

Note 17. Insurance

For the fiscal year ended June 30, 2006, Warren County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 18. Subsequent Events

Land Sales - Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, net proceeds from land sales totaled \$365,050, applicable to two real estate closings in September, 2006 and January, 2007.

Note 19. Prior Period Adjustments

The beginning net asset balances as of June 30, 2005 for governmental activities of the primary government and business-type activities of the primary government of Warren County Fiscal Court have been restated due to correction of errors. The discretely presented component units of the Warren County Fiscal Court have also been restated due to correction of errors. The following is a reconciliation of net assets of June 30, 2005, as previously reported to the restated net assets balance for the same period.

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Beginning net assets at June 30, 2005	\$ 41,699,978	\$ 267,360	\$ 3,521,007
Prior Year Voided Checks	141	30	
Adjustment to increase accumulated depreciation beginning balance for additional depreciation expense	(129,076)	(1,523)	
Adjustments to correct errors:			
Adjustment to increase capital asset beginning balance for items left off in previous year	182,089		
Adjustment to increase net assets for South Central Kentucky Regional Development Authority			1,331
Adjustment to decrease net assets for Inter-Modal Transportation Authority, Inc.			(2,625,000)
Restated beginning net assets at June 30, 2005	<u>\$ 41,753,132</u>	<u>\$ 265,867</u>	<u>\$ 897,338</u>

Net assets as of July 1, 2005 have been adjusted to include the net assets for the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court. The financial information for RDA was not included in Warren County Fiscal Court's audit for fiscal year ending June 30, 2005.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 19. Prior Period Adjustments (Continued)

Net assets as of July 1, 2005 have been adjusted to correct an error for the Inter-Model Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court. In the year ending June 30, 2004, ITA sold approximately 132 acres of Transpark real estate. Accordingly, the most appropriate method for the recognition of the land sales revenue and the related cost of land sales should have been accounted for by using the percentage-of-completion method. The percentage-of-completion method is required because, as of the date of the land sale, the real estate being sold was not fully developed, and pursuant to the "Agreement for Purchase and Sale" between ITA and the buyer, ITA was required to complete certain improvements/developments of the Transpark. Therefore, when the sale occurred, ITA had not incurred all the costs necessary to fully develop the property sold to the buyer. ITA did not properly account for the land by using the percentage-of-completion method, and therefore, as of June 30, 2005, when the land was fully developed, the cost of land sales recognized was understated by \$2,625,000. As a result, beginning net assets of \$3,521,007, as originally reported, has been decreased to \$896,007.

Note 20. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated Infrastructure Historical Cost includes infrastructure placed in service from fiscal year 1984 through current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2006

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,901,000	\$ 9,281,348	\$ 8,967,457	\$ (313,891)
In Lieu Tax Payments	125,000	125,000	139,935	14,935
Excess Fees	1,050,000	1,050,000	883,298	(166,702)
Licenses and Permits	1,025,000	1,025,000	1,151,700	126,700
Intergovernmental Revenue	1,760,761	2,318,022	3,086,539	768,517
Charges for Services	441,706	441,706	262,777	(178,929)
Miscellaneous	333,900	945,130	412,404	(532,726)
Interest	175,000	175,000	153,369	(21,631)
Total Revenues	<u>13,812,367</u>	<u>15,361,206</u>	<u>15,057,479</u>	<u>(303,727)</u>
EXPENDITURES				
General Government	5,022,564	5,829,600	3,590,641	2,238,959
Protection to Persons and Property	1,033,422	1,203,728	1,251,328	(47,600)
General Health and Sanitation	1,949,048	2,045,208	1,896,926	148,282
Social Services	312,279	381,396	332,819	48,577
Recreation and Culture	2,334,581	2,393,604	2,252,860	140,744
Airports	142,892	157,767	155,580	2,187
Debt Service	1,294,411	1,474,995	456,855	1,018,140
Capital Projects	500,000	500,000	488,818	11,182
Administration	1,137,494	1,307,232	1,081,955	225,277
Total Expenditures	<u>13,726,691</u>	<u>15,293,530</u>	<u>11,507,782</u>	<u>3,785,748</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>85,676</u>	<u>67,676</u>	<u>3,549,697</u>	<u>3,482,021</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			32	32
Transfers To Other Funds	<u>(85,676)</u>	<u>(85,676)</u>	<u>(2,130,128)</u>	<u>(2,044,452)</u>
Total Other Financing Sources (Uses)	<u>(85,676)</u>	<u>(85,676)</u>	<u>(2,130,096)</u>	<u>(2,044,420)</u>
Net Changes in Fund Balance		(18,000)	1,419,601	1,437,601
Fund Balance - Beginning		<u>18,000</u>	<u>2,659,877</u>	<u>2,641,877</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,079,478</u>	<u>\$ 4,079,478</u>

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

**Reconciliation of Budgetary Statement to Statement of Revenues, Expenditures, and
Changes In Fund Balances - Governmental Funds - Modified Cash Basis:**

Fund Balance per Budgetary Statement	\$ 4,079,478
Interest Earned On Kentucky Area Development District Bank Account	8,374
Expenditures Related To Kentucky Area Development District Bank Account	(861)
Beginning Balance Kentucky Area Development District Bank Account	<u>230,148</u>
Ending Fund Balance per Statement of Revenues, Expenditures, and Changes in Fund Balances	<u><u>\$ 4,317,139</u></u>

BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS**Required Supplementary Information****Modified Cash Basis****For The Year Ended June 30, 2006****(Continued)**

	ROAD AND BRIDGE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,261,483	\$ 2,386,483	\$ 2,230,516	\$ (155,967)
Miscellaneous	30,000	30,000	2,414	(27,586)
Interest	2,500	2,500	16,477	13,977
Total Revenues	2,293,983	2,418,983	2,249,407	(169,576)
EXPENDITURES				
Roads	1,342,437	1,523,371	1,461,066	62,305
Road Facilities	5,000	1,500		1,500
Capital Projects	691,000	656,616	654,932	1,684
Administration	328,547	310,497	306,107	4,390
Total Expenditures	2,366,984	2,491,984	2,422,105	69,879
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(73,001)	(73,001)	(172,698)	(99,697)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	73,001	73,001	450,000	376,999
Transfers To Other Funds				
Total Other Financing Sources (Uses)	73,001	73,001	450,000	376,999
Net Changes in Fund Balance			277,302	277,302
Fund Balance - Beginning (Restated)			114,023	114,023
Fund Balance - Ending	\$ 0	\$ 0	\$ 391,325	\$ 391,325

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,998,248	\$ 5,182,045	\$ 4,808,601	\$ (373,444)
Charges for Services	434,277	434,277	442,170	7,893
Miscellaneous	433,008	433,008	284,742	(148,266)
Interest	1,500	1,500	1,811	311
Total Revenues	5,867,033	6,050,830	5,537,324	(513,506)
EXPENDITURES				
Protection to Persons and Property	4,396,700	4,582,736	4,523,182	59,554
Debt Service	735,433	735,209		735,209
Administration	825,075	888,060	876,969	11,091
Total Expenditures	5,957,208	6,206,005	5,400,151	805,854
Excess (Deficiency) of Revenues				
Expenditures Before Other				
Sources (Uses)	(90,175)	(155,175)	137,173	292,348
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	90,175	90,175	650,000	559,825
Transfers To Other Funds			(737,909)	(737,909)
Total Other Financing Sources (Us	90,175	90,175	(87,909)	(178,084)
Net Changes in Fund Balance				
Fund Balance - Beginning		(65,000)	49,264	114,264
		65,000	78,938	13,938
Fund Balance - Ending	\$ 0	\$ 0	\$ 128,202	\$ 128,202

WARREN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2006

WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

		Special Revenue Fund Type			
		Local Government Economic Assistance Fund	Park Enterprise Fund	Emergency 911 Fund	Federal Drug Forfeiture Fund
ASSETS					
Cash and Cash Equivalents	\$	29,036	\$ 70,095	\$ 17,208	\$ 52,857
Total Assets	\$	29,036	\$ 70,095	\$ 17,208	\$ 52,857
FUND BALANCES					
Unreserved:					
Special Revenue Fund Type	\$	29,036	\$ 70,095	\$ 17,208	\$ 52,857
Debt Service Fund Type					
Total Fund Balances	\$	29,036	\$ 70,095	\$ 17,208	\$ 52,857

WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2006
(Continued)

<u>Debt Service Fund Type</u>		
<u>General Obligation Bond Fund</u>	<u>Regional Jail Corporation Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 882	\$	\$ 170,078
<u>\$ 882</u>	<u>\$ 0</u>	<u>\$ 170,078</u>
 \$ 882	 \$	 \$ 169,196
<u>882</u>	<u></u>	<u>882</u>
<u>\$ 882</u>	<u>\$ 0</u>	<u>\$ 170,078</u>

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WARREN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

WARREN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Special Revenue Fund Type			
	Local Government Economic Assistance Fund	Park Enterprise Fund	Emergency 911 Fund	Federal Drug Forfeiture Fund
REVENUES				
Taxes	\$ 296,379	\$	\$ 348,260	\$
Intergovernmental				44,428
Miscellaneous		5,285		9,521
Interest	6,005	1,384		734
Total Revenues	<u>302,384</u>	<u>6,669</u>	<u>348,260</u>	<u>54,683</u>
EXPENDITURES				
General Government	125,000			15,883
Protection to Persons and Property	45,000		368,843	
Social Services	61,565			
Recreation and Culture		80,305		
Roads	39,067			
Debt Service				
Administration	718			
Total Expenditures	<u>271,350</u>	<u>80,305</u>	<u>368,843</u>	<u>15,883</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Sources (Uses)	<u>31,034</u>	<u>(73,636)</u>	<u>(20,583)</u>	<u>38,800</u>
Other Financing Sources (Uses)				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	31,034	(73,636)	(20,583)	38,800
Fund Balances - Beginning (Restated)	(1,998)	143,731	37,791	14,057
Fund Balances - Ending	<u>\$ 29,036</u>	<u>\$ 70,095</u>	<u>\$ 17,208</u>	<u>\$ 52,857</u>

WARREN COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 Other Supplementary Information
 For The Year Ended June 30, 2006
 (Continued)

<u>Debt Service Fund Type</u>		
<u>General Obligation Bond Fund</u>	<u>Regional Jail Corporation Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$	\$	\$ 644,639
		44,428
		14,806
296		8,419
296		712,292
		140,883
		413,843
		61,565
		80,305
		39,067
1,407,336		1,407,336
		718
1,407,336		2,143,717
(1,407,040)		(1,431,425)
1,414,033		1,414,033
(6,920)		(6,920)
1,407,113		1,407,113
73		(24,312)
809		194,390
\$ 882	\$ 0	\$ 170,078

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WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

For The Year Ended June 30, 2006

Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Election Commission</u>		
Passed-Through State Board of Elections:		
Help America Vote Act (CFDA #90.401)	N/A	\$ 346,230
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
State Domestic Preparedness Program	M-03255396	23,343
State Domestic Preparedness Program (CFDA #97.004)	M-03255125	656
State Domestic Preparedness Program (CFDA #97.036)	M-05369001	2,035
State Domestic Preparedness Program (CFDA #97.042)	M-05029993	36,116
Passed-Through Office Of Homeland Security:		
State Homeland Security Grant Program	M-04599435	64,214
State Homeland Security Grant Program (CFDA #97.004)	M-04647883	2,500
State Homeland Security Grant Program (CFDA #97.067)	M-05334940	132,999
Total U. S. Department of Homeland Security		<u>261,863</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Department Of Justice:		
Byrne Formula Grant (CFDA #16.579)	5020-D-1/05	113,029

WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
Passed-Through Daviess County, Kentucky Sheriff's Department: Community Oriented Policing Services - Methamphetamine Grant (CFDA #16.710)	KY114050	\$ 7,378
Passed-Through State Justice And Public Safety Cabinet: Justice Assistance Grant (CFDA #16.738)	N/A	<u>17,703</u>
Total U. S. Department of Justice		<u>138,110</u>
<u>U.S. Office of National Drug Control Policy</u>		
Passed-Through Laurel County Fiscal Court Appalachia High Intensity Drug Traffic Area Program (CFDA #07.000)	I5APP5012 I6APP5012	<u>24,665</u>
Total Cash Expenditures of Federal Awards		<u>\$ 770,868</u>

WARREN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Warren County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanan, Warren County Judge/Executive
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the Fiscal Court's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 16, 2007. We did not audit the financial statements of the Inter-Modal Transportation Authority, Inc., and South Central Kentucky Regional Development Authority, discretely presented component units of the Warren County Fiscal Court. Another auditor whose reports have been furnished to us audited those financial statements. In addition, the financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc., a discretely presented component unit of the Warren County Fiscal Court. Warren County Fiscal Court presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Warren County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 16, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Members of the Warren County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Warren County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Warren County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Warren County's management. Our responsibility is to express an opinion on Warren County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Warren County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Warren County's compliance with those requirements.

In our opinion, Warren County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Warren County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Warren County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Kentucky Governor's Office for Local Development, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 16, 2007

WARREN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information

For The Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the remaining fund information of Warren County, Kentucky and an adverse opinion on the discretely presented component units of Warren County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Warren County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Warren County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Warren County reported in Part C of this schedule.
7. The programs tested as major programs were: Help America Vote Act
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Warren County was determined to be a low-risk auditee.

B. FINDING - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None.

E. PRIOR YEAR FINDINGS AND QUESTION COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

WARREN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

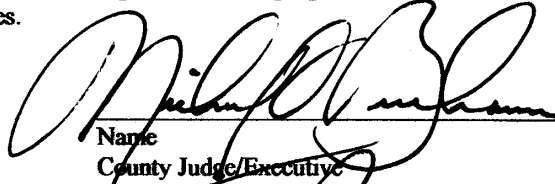
CERTIFICATION OF COMPLIANCE

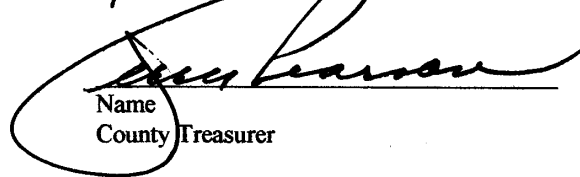
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

WARREN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Warren County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name
County Judge/Executive


Name
County Treasurer

